



**Victhom** Human Bionics

**Consolidated Interim  
Financial Statements  
March 31, 2008 and 2007**

Consolidated Financial Statements

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## Consolidated Statements of Operations and Comprehensive Loss

Three-month periods ended on March 31  
(unaudited)

	<u>2008</u>	<u>2007</u>
	\$	\$
<b>Revenues</b>	<u>574,244</u>	<u>560,235</u>
<b>Expenses</b>		
Research and development	2,275,928	1,984,179
Tax credits and grants	(340,844)	(311,355)
General and administrative	890,461	634,343
Financial	517,017	507,376
	<u>3,342,562</u>	<u>2,814,543</u>
<b>Net loss and comprehensive loss</b>	<u>2,768,318</u>	<u>2,254,308</u>
Weighted average number of common shares outstanding	<u>95,892,481</u>	<u>58,485,485</u>
Basic and diluted net loss per share	<u>0.029</u>	<u>0.039</u>

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



## Consolidated Statements of Contributed Surplus and Deficit

Three-month periods ended on March 31  
(unaudited)

	<u>2008</u>	<u>2007</u>
	\$	\$
<b>CONTRIBUTED SURPLUS</b>		
Balance, beginning of period	9,884,497	7,535,941
Warrants issued in public offering	-	2,358,361
Stock-based compensation related to:		
Stock options vested (Note 8)	44,864	60,066
Stock options exercised	-	(1,747)
Balance, end of period	<u>9,929,361</u>	<u>9,952,621</u>
<b>DEFICIT</b>		
Balance, beginning of period	(41,491,722)	(31,858,337)
Restatement related to adoption of Section 3855, "Financial Instruments"	-	128,294
	<u>(41,491,722)</u>	<u>(31,730,043)</u>
Net loss	<u>(2,768,318)</u>	<u>(2,254,308)</u>
Balance, end of period	<u>(44,260,040)</u>	<u>(33,984,351)</u>

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

**Consolidated Statements of Cash Flows**

 Three-month periods ended on March 31  
 (unaudited)

	2008	2007
	\$	\$
<b>OPERATING ACTIVITIES</b>		
Net loss	(2,768,318)	(2,254,308)
Non-cash items:		
Stock-based compensation (Note 8)	44,864	60,066
Interest on convertible debentures	644,684	586,971
Amortization of property, plant and equipment	147,756	166,106
Amortization of intangible assets	18,150	18,150
Changes in working capital items	40,878	1,374,454
Cash flows from operating activities	<u>(1,871,986)</u>	<u>(48,561)</u>
<b>INVESTING ACTIVITIES</b>		
Property, plant and equipment	(47,420)	(54,165)
Intangible assets	(57,058)	(59,489)
Cash flows from investing activities	<u>(104,478)</u>	<u>(113,654)</u>
<b>FINANCING ACTIVITIES</b>		
Demand loan	-	(820,000)
Repayment of long-term debt	(4,583)	(8,455)
Issue of shares and warrants, net of costs	-	11,524,769
Cash flows from financing activities	<u>(4,583)</u>	<u>10,696,314</u>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(1,981,047)</b>	<b>10,534,099</b>
Cash and cash equivalents, beginning of period	<u>12,442,377</u>	<u>6,498,854</u>
Cash and cash equivalents, end of period	<u><u>10,461,330</u></u>	<u><u>17,032,953</u></u>
Interest paid during the periods	379	10,771
Cash flows from non-monetary financing activities are detailed as follows:		
Issue of shares related to:		
Exercise of stock options	-	1,747
Cash and cash equivalents are detailed as follows:		
Cash in Caisse Desjardins	-	102,443
Cash in National Bank of Canada	465,269	12,436,330
Banker's acceptance, interest of 3.53% annually, maturing April 14, 2008	498,946	-
Banker's acceptance, interest of 3.53% annually, maturing April 14, 2008	1,497,976	-
Banker's acceptance, interest of 4.31% annually, matured April 11, 2007	-	4,494,180
Money market securities, interest of 3.98% annually, maturing April 1, 2008	7,999,139	-
	<u>10,461,330</u>	<u>17,032,953</u>

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



## Consolidated Balance Sheets

as of March 31, 2008 and December 31, 2007

	(unaudited) <b>2008</b>	2007
	\$	\$
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	10,461,330	12,442,377
Accounts receivable (Note 5)	1,454,062	1,293,916
Prepaid expenses	148,747	174,980
	<u>12,064,139</u>	<u>13,911,273</u>
Property, plant and equipment	2,300,670	2,401,006
Intangible assets	9,740,013	9,701,105
	<u>24,104,822</u>	<u>26,013,384</u>
<b>LIABILITIES</b>		
Current liabilities		
Accounts payable and accrued liabilities	1,659,430	1,293,831
Deferred revenues	4,222	195,030
Instalments on long-term debt	8,748	13,331
Instalments on liability component of convertible debentures (Note 6)	324,764	-
	<u>1,997,164</u>	<u>1,502,192</u>
Liability component of convertible debentures (Note 6)	15,210,351	14,890,431
	<u>17,207,515</u>	<u>16,392,623</u>
<b>SHAREHOLDERS' EQUITY</b>		
Equity component of convertible debentures (Note 6)	1,551,780	1,551,780
Capital stock (Note 7)	39,676,206	39,676,206
Contributed surplus	9,929,361	9,884,497
Deficit	(44,260,040)	(41,491,722)
	<u>6,897,307</u>	<u>9,620,761</u>
	<u>24,104,822</u>	<u>26,013,384</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

## Notes to Consolidated Financial Statements

as of March 31, 2008 and December 31, 2007  
(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. The Company believes that with its current financial resources it will have sufficient liquidity to support its cash flow requirements for at least the next 12 months. This disclosure is in compliance with the Canadian Institute of Chartered Accountant modified Section 1400, "General Standards of Financial Statement Presentation".

### **2 - FINANCIAL STATEMENT 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, 2007, except for changes described in Note 3. The unaudited interim consolidated financial statements 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, 2007. The results of operations for the interim periods presented do not necessarily reflect results for the full year.

### **3 - ACCOUNTING POLICIES**

#### **Accounting changes**

On January 1, 2008, the Company adopted new accounting standards which only address disclosures and have no impact on the Company's financial results. The new accounting standards are:

Section 1400, "General Standards of Financial Statement Presentation" of the Canadian Institute of Chartered Accountants Handbook. This new section requires that management make an assessment of the Company's ability to continue as a going concern over a period which is at least, but is not limited to, twelve months from the balance sheet date.

Section 1535, "Capital Disclosures" of the Canadian Institute of Chartered Accountants Handbook. The new section establishes standards for disclosing information about an entity's capital and how it is managed.

Section 3862, "Financial Instruments - Disclosure and Presentation" and section 3863, "Financial Instruments - Presentation" of the Canadian Institute of Chartered Accountants Handbook, which deal with the presentation and disclosure of financial instruments and non-financial derivatives.

## Notes to Consolidated Financial Statements

as of March 31, 2008 and December 31, 2007  
(unaudited)

### 4 - CAPITAL STRUCTURE FINANCIAL POLICY

The Company's objective when managing capital is to maintain a flexible capital structure which optimizes the cost of capital at acceptable risk. In the management of capital, the Company includes shareholders' equity, long-term debt, convertible debentures, and cash and cash equivalents. The Company monitors capital in the light of its monthly burn rate and short-term obligations linked to its financial liabilities.

### 5 - ACCOUNTS RECEIVABLE

	<u>2008</u>	<u>2007</u>
	\$	\$
Investment tax credits receivable	1,417,625	1,076,780
Sales taxes receivable	28,597	105,717
Trade accounts receivable	7,840	61,292
Others	-	50,127
	<u>1,454,062</u>	<u>1,293,916</u>

### 6 - CONVERTIBLE DEBENTURES

The following table illustrates variations in the periods:

	<u>Liability component</u>	<u>Equity component</u>
	\$	\$
Balance as of December 31, 2006 (a)	14,866,103	1,551,780
Presentation of deferred financing costs against the convertible debentures	(1,027,528)	-
Restatement in prior period related to Section 3855, "Financial Instruments"	(128,294)	-
Imputed interest	586,971	-
Balance as of March 31, 2007	<u>14,297,252</u>	<u>1,551,780</u>
Imputed interest	1,895,803	-
Payment of interest	(1,302,624)	-
Balance as of December 31, 2007	<u>14,890,431</u>	<u>1,551,780</u>
Imputed interest	644,684	-
	15,535,115	1,551,780
Instalments due within one year	324,764	-
<b>Balance as of March 31, 2008</b>	<u><b>15,210,351</b></u>	<u><b>1,551,780</b></u>

## Notes to Consolidated Financial Statements

as of March 31, 2008 and December 31, 2007  
(unaudited)

### 6 - CONVERTIBLE DEBENTURES (Continued)

- (a) Debentures issued having a par value of \$18,354,000, unsecured, bearing interest at the rate of 7% (effective rate of 17.12%), 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 are recorded as reduction of the long-term debt. 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.

### 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, 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
Balance as of March 31, 2007	<u>87,922,263</u>	<u>38,008,734</u>
Financing fees related to public offering	-	340,849
Shares issued related to interest due on convertible debentures	7,810,218	1,302,624
Stock options exercised	160,000	23,999
Balance as of December 31, 2007	<u>95,892,481</u>	<u>39,676,206</u>
<b>Balance as of March 31, 2008</b>	<b><u>95,892,481</u></b>	<b><u>39,676,206</u></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 recognized as a decrease of the debt. The consideration is recognized as contributed surplus in the balance sheet.

## Notes to Consolidated Financial Statements

as of March 31, 2008 and December 31, 2007  
(unaudited)

### 7 - CAPITAL STOCK (Continued)

No warrants were issued during the first three months of 2008. 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.

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, 2006	7,613,511	1.58
Granted	18,895,253	0.45
Expired	(543,822)	1.35
Outstanding, as of March 31, 2007	25,964,942	0.76
Outstanding, as of December 31, 2007	25,964,942	0.76
<b>Outstanding, as of March 31, 2008</b>	<b>25,964,942</b>	<b>0.76</b>

As of March 31, 2008, 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	1.96	0.45
\$1.48 to \$1.60	7,069,689	2.00	1.60
<u>\$0.45 to \$1.60</u>	<u>25,964,942</u>	<u>1.97</u>	<u>0.76</u>

## Notes to Consolidated Financial Statements

as of March 31, 2008 and December 31, 2007  
(unaudited)

### 8 - 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 in the first three months of 2007. In 2008, 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 3.85%, no expected dividends and expected life of 6 years. The weighted average fair value of the stock options granted during 2008 is \$0.17.

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, 2006	4,575,729	0.98
Exercised	(6,667)	0.53
Forfeited	(327,186)	0.99
Outstanding, as of March 31, 2007	<u>4,241,876</u>	<u>0.98</u>
Granted	4,075,000	0.22
Exercised	(160,000)	0.15
Forfeited	(1,848,876)	0.96
Outstanding, as of December 31, 2007	<u>6,308,000</u>	<u>0.51</u>
Granted	100,000	0.17
Forfeited	(1,272,917)	0.39
<b>Outstanding, as of March 31, 2008</b>	<b><u>5,135,083</u></b>	<b><u>0.54</u></b>
Exercisable, as of March 31, 2008 (3,884,270 at \$0.99 in 2007)	<u>3,230,854</u>	<u>0.73</u>

As of March 31, 2008, the Company recorded \$44,864 (\$60,066 in 2007) as stock-based compensation.

## Notes to Consolidated Financial Statements

as of March 31, 2008 and December 31, 2007  
(unaudited)

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

As of March 31, 2008, 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
\$0.16 to \$0.23	2,175,000	9.61	\$ 0.16
\$0.24 to \$0.35	1,050,000	9.13	0.32
\$0.53 to \$0.77	610,083	4.56	0.55
\$0.78 to \$1.13	95,000	5.94	0.92
\$1.14 to \$1.65	1,205,000	5.07	1.36
<u>\$0.16 to \$1.65</u>	<u>5,135,083</u>	<u>7.78</u>	<u>0.54</u>

As of March 31, 2008, the following stock options were exercisable:

Range of exercise prices	Number of exercisable options	Weighted average exercise price
\$0.16 to \$0.23	750,458	\$ 0.16
\$0.24 to \$0.35	625,000	0.32
\$0.53 to \$0.77	569,458	0.55
\$0.78 to \$1.13	80,938	0.90
\$1.14 to \$1.65	1,205,000	1.36
<u>\$0.16 to \$1.65</u>	<u>3,230,854</u>	<u>0.73</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.

### 9 - FINANCIAL INSTRUMENTS

The Company is exposed to currency risk due to its revenues and expenditures denominated in U.S. dollars. The Company has no currency hedging protection, the revenues in U.S. dollars being used to pay for purchases made in the said currency. Management believes the currency risk to be remote.

As of March 31, 2008, the Company has assets and liabilities in foreign currency including cash and cash equivalents in the amount of US\$ 268,139 (US\$ 236,947 in 2007), accounts receivable in the amount of US\$ 7,238 (US\$ 0 in 2007) and accounts payable in the amount of US\$ 113,601 (US\$ 80,480 in 2007).

The Company recovery risk is linked to our partner located in Iceland. The management believes the recovery risk to be low due to the nature of our partner's business activities.

## Notes to Consolidated Financial Statements

as of March 31, 2008 and December 31, 2007  
(unaudited)

### 9 - FINANCIAL INSTRUMENTS (Continued)

Financial assets that potentially subject the Company to credit risk and market risk consist of cash and cash equivalents and accounts receivable. The cash equivalents consist mainly of short-term investments, such as money market securities and banker's acceptances. For the first three months of 2008, the Company has cash and cash equivalents for an amount of \$2,462,191 (\$17,032,953 in 2007) with reputable financial institutions and \$7,999,139 (\$0 in 2007) in money market securities, from which management believes the risk of loss to be remote.

Financial liabilities that potentially subject the Company to liquidity risk consist of convertible debentures. The convertible debentures will mature in March 2010 and the Company must pay interest every six months. Management believes the liquidity risk to be remote, since its financial obligations may be met through the issuance of capital stock or other financial transactions.

### 10 - SEGMENTED INFORMATION

For the first three months of 2008, the Company generated revenues from non-refundable advance royalties for an amount of \$541,873 (\$560,235 in 2007), from support activities for an amount of \$24,551 (\$0 in 2007), and from other sources for an amount of \$7,819 (\$0 in 2007). Revenues are mostly derived from a European medical device company located in Iceland.

The Company has two reportable operating segments as follows:

	Biotronix	Neurobionix	Total
	\$	\$	\$
<b>Revenues</b>	574,244	-	574,244
<b>Expenses</b>			
Research and development	481,581	1,794,347	2,275,928
Tax credits and grants	(100,392)	(240,452)	(340,844)
	<u>381,189</u>	<u>1,553,895</u>	<u>1,935,084</u>

All property, plant and equipment are located in Canada.

### 11 - COMPARATIVE FIGURES

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