



Victhom Human Bionics

**Interim Consolidated
Financial Statements
June 30, 2008 and 2007**

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Consolidated Statements of Operations and Comprehensive Loss

Periods ended on June 30
(unaudited)

	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
	(3 months)	(3 months)	(6 months)	(6 months)
	\$	\$	\$	\$
Revenues	<u>582,548</u>	547,854	<u>1,156,791</u>	1,108,089
Expenses				
Research and development	3,881,221	2,118,042	6,157,529	4,102,220
Tax credits and grants	(251,348)	(192,373)	(592,192)	(503,727)
General and administrative	512,655	775,028	1,398,605	1,409,370
Financial	593,567	494,194	1,114,714	1,001,571
	<u>4,736,095</u>	3,194,891	<u>8,078,656</u>	6,009,434
Net loss and comprehensive loss	<u>4,153,547</u>	2,647,037	<u>6,921,865</u>	4,901,345
Weighted average number of common shares outstanding	<u>95,892,481</u>	88,061,164	<u>95,892,481</u>	73,355,025
Basic and diluted net loss per share	<u>0.043</u>	0.030	<u>0.072</u>	0.067

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



Consolidated Statements of Contributed Surplus and Deficit

Periods ended on June 30
(unaudited)

	<u>2008</u> <u>(3 months)</u> \$	<u>2007</u> <u>(3 months)</u> \$	<u>2008</u> <u>(6 months)</u> \$	<u>2007</u> <u>(6 months)</u> \$
CONTRIBUTED SURPLUS				
Balance, beginning of period	9,929,361	9,952,621	9,884,497	7,535,941
Warrants issued in public offering	-	-	-	2,358,361
Stock-based compensation related to:				
Stock options vested (Note 9)	64,448	131,777	109,312	191,843
Stock options exercised	-	-	-	(1,747)
Balance, end of period	<u>9,993,809</u>	<u>10,084,398</u>	<u>9,993,809</u>	<u>10,084,398</u>
DEFICIT				
Balance, beginning of period	(44,260,040)	(33,984,351)	(41,491,722)	(31,858,337)
Restatement related to adoption of Section 3855, "Financial Instruments"	-	-	-	128,294
	<u>(44,260,040)</u>	<u>(33,984,351)</u>	<u>(41,491,722)</u>	<u>(31,730,043)</u>
Net loss	<u>(4,153,547)</u>	<u>(2,647,037)</u>	<u>(6,921,865)</u>	<u>(4,901,345)</u>
Balance, end of period	<u>(48,413,587)</u>	<u>(36,631,388)</u>	<u>(48,413,587)</u>	<u>(36,631,388)</u>

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

Consolidated Statements of Cash Flows

Periods ended on June 30
(unaudited)

	2008	2007	2008	2007
	(3 months)	(3 months)	(6 months)	(6 months)
	\$	\$	\$	\$
OPERATING ACTIVITIES				
Net loss	(4,153,547)	(2,647,037)	(6,921,865)	(4,901,345)
Non-cash items:				
Stock-based compensation	64,448	131,777	109,312	191,843
Interest on convertible debentures	672,599	619,006	1,317,283	1,205,977
Amortization of property, plant and equipment	149,823	172,912	297,579	339,018
Write-down of intangible assets	1,261,338	-	1,261,338	-
Amortization of intangible assets	18,150	18,150	36,300	36,300
Changes in working capital items	(475,830)	(195,361)	(434,952)	1,179,093
Cash flows from operating activities	(2,463,019)	(1,900,553)	(4,335,005)	(1,949,114)
INVESTING ACTIVITIES				
Property, plant and equipment	(97,541)	(38,309)	(144,961)	(92,474)
Intangible assets	(27,827)	(20,498)	(84,885)	(79,987)
Cash flows from investing activities	(125,368)	(58,807)	(229,846)	(172,461)
FINANCING ACTIVITIES				
Demand loan	-	-	-	(820,000)
Repayment of long-term debt	(4,729)	(7,787)	(9,312)	(16,242)
Issue of shares and warrants, net of costs	-	31,352	-	11,556,121
Cash flows from financing activities	(4,729)	23,565	(9,312)	10,719,879
Net increase (decrease) in cash and cash equivalents	(2,593,116)	(1,935,795)	(4,574,163)	8,598,304
Cash and cash equivalents, beginning of period	10,461,330	17,032,953	12,442,377	6,498,854
Cash and cash equivalents, end of period	7,868,214	15,097,158	7,868,214	15,097,158
Interest paid during the periods	231	1,250	614	12,464
Cash flows from non-monetary financing activities are detailed as follows:				
Issue of shares related to:				
Exercise of stock options	-	-	-	1,747
Payment of interest due on convertible debentures	649,528	645,959	649,528	645,959
Cash and cash equivalents are detailed as follows:				
Cash in Caisse Desjardins			-	491,907
Cash in National Bank of Canada			409,172	894,603
Money market securities, interest of 3.42% annually, maturing July 31, 2008			5,459,577	-
Money market securities, interest of 3.38% annually, maturing July 3, 2008			1,999,465	-
Money market securities, interest of 4.38% annually, matured July 24, 2007			-	13,710,648
			7,868,214	15,097,158

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



Consolidated Balance Sheets

As of June 30, 2008 and December 31, 2007

	(unaudited) 2008	2007
	\$	\$
ASSETS		
Current assets		
Cash and cash equivalents	7,868,214	12,442,377
Accounts receivable (Note 5)	1,763,414	1,293,916
Prepaid expenses	127,284	174,980
	<u>9,758,912</u>	<u>13,911,273</u>
Property, plant and equipment	2,248,388	2,401,006
Intangible assets (Note 6)	8,488,352	9,701,105
	<u><u>20,495,652</u></u>	<u><u>26,013,384</u></u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	1,433,365	1,293,831
Deferred revenues	42,346	195,030
Instalments on long-term debt	4,019	13,331
	<u>1,479,730</u>	<u>1,502,192</u>
Liability component of convertible debentures (Note 7)	15,558,186	14,890,431
	<u><u>17,037,916</u></u>	<u><u>16,392,623</u></u>
SHAREHOLDERS' EQUITY		
Equity component of convertible debentures (Note 7)	1,551,780	1,551,780
Capital stock (Note 8)	40,325,734	39,676,206
Contributed surplus	9,993,809	9,884,497
Deficit	<u>(48,413,587)</u>	<u>(41,491,722)</u>
	<u>3,457,736</u>	<u>9,620,761</u>
	<u><u>20,495,652</u></u>	<u><u>26,013,384</u></u>

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

On behalf of the Board,

/s/ Daniel Johnson
Chairman

/s/ Nitin Kaushal
Director



Victhom Human Bionics

Notes to Consolidated Financial Statements

as of June 30, 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.



Victhom Human Bionics

Notes to Consolidated Financial Statements

as of June 30, 2008 and December 31, 2007
(unaudited)

3 - ACCOUNTING POLICIES (Continued)

Revenue recognition

Victhom entered into a global license and development and marketing agreement with a European medical device company in September 2005 for the development of three to six new products for the O&P market. That company supports all development costs by providing Victhom with monthly payments.

By virtue of a marketing agreement, the Company must attain development objectives for its products and services based on a predetermined timetable to the benefit of the third party. Revenues are recognized in the statement of operations when they are earned. 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.

Investment transactions are recorded on the transaction date and resulting revenues are recognized using the accrual basis. Interest income is accrued based on the number of days the investment is held during the period.

Foreign currency translation

Monetary assets and liabilities in foreign currency of Canadian corporations and integrated foreign operations 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.

4 - CAPITAL STRUCTURE FINANCIAL POLICY

The Company's objectives when managing capital are to: 1) safeguard the Company's ability to pursue the development of its medical device products; 2) invest cash to earn the highest possible amount of interest income, and 3) 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, tax credits receivable, and cash and cash equivalents. The Company manages the capital structure by reviewing on a weekly basis its use of cash and its short-term commitments related to its financial obligations.

In order to maximize ongoing development efforts, the Company does not pay out dividends.

The Company's investment policy is to invest its cash in high-grade investment securities with varying terms to maturity, selected with regards to the expected timing of expenditures from continuing operations.

The Company is not subject to any externally imposed capital requirements.



Notes to Consolidated Financial Statements

as of June 30, 2008 and December 31, 2007
(unaudited)

5 - ACCOUNTS RECEIVABLE

	<u>2008</u>	<u>2007</u>
	\$	\$
Investment tax credits receivable	1,668,973	1,076,780
Sales taxes receivable	54,516	105,717
Trade accounts receivable	25,470	61,292
Others	14,455	50,127
	<u>1,763,414</u>	<u>1,293,916</u>

6 - INTANGIBLE ASSETS

	<u>2008</u>		
	<u>Cost</u>	<u>Accumulated amortization</u>	<u>Net</u>
	\$	\$	\$
Patents	1,447,631	108,900	1,338,731
Acquired technology	7,149,621	-	7,149,621
	<u>8,597,252</u>	<u>108,900</u>	<u>8,488,352</u>

	<u>2007</u>		
	<u>Cost</u>	<u>Accumulated amortization</u>	<u>Net</u>
	\$	\$	\$
Patents	1,370,299	72,600	1,297,699
Commercial license agreements	1,253,785	-	1,253,785
Acquired technology	7,149,621	-	7,149,621
	<u>9,773,705</u>	<u>72,600</u>	<u>9,701,105</u>

During 2008, the Company acquired \$77,332 (\$47,697 in 2007) in patents.

During the second quarter of 2008, management decided not to pursue projects under development related to commercial license agreements. Consequently, management has recorded a write-down of \$1,261,338 representing the whole capitalized value of commercial license agreements. This intangible asset relates to non-core projects in the Neurobionix business unit and the write-down is recognized against research and development expenses.

Notes to Consolidated Financial Statements

as of June 30, 2008 and December 31, 2007
(unaudited)

7 - CONVERTIBLE DEBENTURES

The following table illustrates variations in the periods:

	Liability component \$	Equity component \$
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	1,205,977	-
Payment of interest	<u>(645,959)</u>	<u>-</u>
Balance as of June 30, 2007	<u>14,270,299</u>	<u>1,551,780</u>
Imputed interest	1,276,797	-
Payment of interest	<u>(656,665)</u>	<u>-</u>
Balance as of December 31, 2007	<u>14,890,431</u>	<u>1,551,780</u>
Imputed interest	1,317,283	-
Payment of interest	<u>(649,528)</u>	<u>-</u>
Balance as of June 30, 2008	<u>15,558,186</u>	<u>1,551,780</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%), maturing on March 22, 2010. All repayments of the principal amount shall be made in U.S. dollars at a fixed exchange rate of CAN\$ 1.2104 for each US\$ 1.00, representing US\$ 15,163,582.

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 liability component. 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.



Notes to Consolidated Financial Statements

as of June 30, 2008 and December 31, 2007
(unaudited)

8 - 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	9,170,228
Shares issued related to interest due on convertible debentures	2,484,465	645,959
Stock options exercised	166,667	29,279
Balance as of June 30, 2007	<u>90,566,728</u>	<u>38,686,045</u>
Financing fees related to public offering	-	333,496
Shares issued related to interest due on convertible debentures	5,325,753	656,665
Balance as of December 31, 2007	<u>95,892,481</u>	<u>39,676,206</u>
Shares issued related to interest due on convertible debentures	5,011,796	649,528
Balance as of June 30, 2008	<u>100,904,277</u>	<u>40,325,734</u>

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.

No warrants were issued during the first six 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 fair value of the warrants granted in 2007 is \$0.13.



Notes to Consolidated Financial Statements

as of June 30, 2008 and December 31, 2007
(unaudited)

8 - 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, 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
Outstanding, as of December 31, 2007	25,964,942	0.76
Outstanding, as of June 30, 2008	25,964,942	0.76

As of June 30, 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	1.71	0.45
\$1.17 to \$1.60	7,069,689	1.75	1.60
\$0.45 to \$1.60	25,964,942	1.72	0.76

9 - 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 trading day immediately preceding the date they are granted.

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 3.72% (4.19% in 2007), no expected dividends and expected life of 6 years (same in 2007). The weighted average fair value of the stock options granted during 2008 is \$0.07 (\$0.19 in 2007).



Notes to Consolidated Financial Statements

as of June 30, 2008 and December 31, 2007
(unaudited)

9 - STOCK-BASED COMPENSATION (Continued)

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
Granted	1,400,000	0.32
Exercised	(166,667)	0.17
Forfeited	(1,868,701)	1.20
Outstanding, as of June 30, 2007	<u>3,940,361</u>	<u>0.86</u>
Granted	2,675,000	0.16
Forfeited	(307,361)	1.23
Outstanding, as of December 31, 2007	<u>6,308,000</u>	<u>0.51</u>
Granted	1,900,000	0.12
Forfeited	(1,500,000)	0.46
Outstanding, as of June 30, 2008	<u>6,708,000</u>	<u>0.41</u>
Exercisable, as of June 30, 2008 (2,837,045 at \$0.95 in 2007)	<u>3,733,979</u>	<u>0.60</u>

For the three-month period ended on June 30, 2008, the Company recorded \$64,448 (\$131,777 in 2007) as stock-based compensation. For the six-month period ended on June 30, 2008, the Company recorded \$109,312 (\$191,843 in 2007) as stock-based compensation.

As of June 30, 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 \$
\$0.11 to \$0.15	1,800,000	9.91	0.12
\$0.16 to \$0.23	2,175,000	9.35	0.16
\$0.24 to \$0.35	1,000,000	8.88	0.32
\$0.53 to \$0.77	568,000	5.22	0.55
\$0.78 to \$1.13	80,000	6.79	0.94
\$1.14 to \$1.65	1,085,000	6.29	1.38
<u>\$0.11 to \$1.65</u>	<u>6,708,000</u>	<u>8.56</u>	<u>0.41</u>



Notes to Consolidated Financial Statements

as of June 30, 2008 and December 31, 2007
(unaudited)

9 - STOCK-BASED COMPENSATION (Continued)

As of June 30, 2008, the following stock options were exercisable:

Range of exercise prices	Number of exercisable options	Weighted average exercise price \$
\$0.11 to \$0.15	534,896	0.12
\$0.16 to \$0.23	886,395	0.16
\$0.24 to \$0.35	625,000	0.32
\$0.53 to \$0.77	533,625	0.54
\$0.78 to \$1.13	69,063	0.93
\$1.14 to \$1.65	1,085,000	1.38
<u>\$0.11 to \$1.65</u>	<u>3,733,979</u>	<u>0.60</u>

10 - 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 June 30, 2008, the Company has assets and liabilities in foreign currency including cash and cash equivalents in the amount of US\$ 248,601 (US\$ 567,902 in 2007), accounts receivable in the amount of US\$ 24,978 (US\$ 0 in 2007) and accounts payable in the amount of US\$ 166,240 (US\$ 88,671 in 2007).

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

Financial assets that potentially subject the Company to credit risk and market risk consist of cash and cash equivalents and accounts receivable. For the first six months of 2008, the Company had cash and cash equivalents for an amount of \$409,172 (\$1,386,510 in 2007) with reputable financial institutions and \$7,459,042 (\$13,710,648 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 and currency 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. The repayment of the principal amount shall be made at a fixed exchange rate in U.S. dollars (see Note 7). Management believes the currency risk to be remote based on the current favorable exchange rates.



Notes to Consolidated Financial Statements

as of June 30, 2008 and December 31, 2007
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11 - SEGMENTED INFORMATION

For the first six months of 2008, the Company generated revenues from non-refundable advance royalties for an amount of \$1,085,747 (\$1,103,267 in 2007), from support activities for an amount of \$25,354 (\$0 in 2007), and from other sources for an amount of \$45,690 (\$4,822 in 2007). Revenues are mostly derived from a European medical device company located in Iceland.

Almost all of our property, plant and equipment are located in Canada.

The Company has two reportable operating segments and the results of operation for the six-month period as well as the current quarter are presented in the tables below:

	<u>Biotronix</u>	<u>Neurobionix</u>	<u>Total</u>
	(3 months)	(3 months)	(3 months)
	\$	\$	\$
Revenues	<u>572,442</u>	<u>10,106</u>	<u>582,548</u>
Expenses			
Research and development	572,861	3,308,360	3,881,221
Tax credits and grants	<u>(90,852)</u>	<u>(160,496)</u>	<u>(251,348)</u>
	<u>482,009</u>	<u>3,147,864</u>	<u>3,629,873</u>
	<u>Biotronix</u>	<u>Neurobionix</u>	<u>Total</u>
	(6 months)	(6 months)	(6 months)
	\$	\$	\$
Revenues	<u>1,146,685</u>	<u>10,106</u>	<u>1,156,791</u>
Expenses			
Research and development	1,051,574	5,105,955	6,157,529
Tax credits and grants	<u>(191,244)</u>	<u>(400,948)</u>	<u>(592,192)</u>
	<u>860,330</u>	<u>4,705,007</u>	<u>5,565,337</u>

12 - COMPARATIVE FIGURES

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