



Victhom Human Bionics

**Interim Consolidated
Financial Statements
September 30, 2009 and 2008**

Consolidated Financial Statements

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Consolidated Statements of Operations and Comprehensive Income

Periods ended on September 30
(unaudited)

	<u>2009</u> (3 months) \$	<u>2008</u> (3 months) \$	<u>2009</u> (9 months) \$	<u>2008</u> (9 months) \$
Revenues	264,186	531,977	1,441,834	1,688,768
Expenses				
Research and development	1,603,252	2,467,027	7,029,257	7,363,263
Tax credits and grants	(35,018)	(151,718)	(694,927)	(743,910)
General and administrative	728,539	395,523	1,854,982	1,794,082
Financial	(196,642)	1,177,886	(543,608)	2,588,432
	<u>2,100,131</u>	<u>3,888,718</u>	<u>7,645,704</u>	<u>11,001,867</u>
Write-down of intangible assets (Note 9)	-	-	-	1,261,338
Gain on extinguishment of convertible debentures related to liability component (Note 11)	-	-	(8,278,369)	-
Realized gain on assets and liabilities transfer (Note 5)	(83,912)	-	(1,696,228)	-
	<u>2,016,219</u>	<u>3,888,718</u>	<u>(2,328,893)</u>	<u>12,263,205</u>
Net profit (loss) and comprehensive income	<u>(1,752,033)</u>	<u>(3,356,741)</u>	<u>3,770,727</u>	<u>(10,574,437)</u>
Weighted average number of common shares outstanding	<u>15,174,840</u>	<u>10,090,428</u>	<u>13,333,751</u>	<u>9,757,527</u>
Net profit (loss) per share				
Basic	(0.115)	(0.333)	0.283	(1.084)
Diluted	<u>(0.115)</u>	<u>(0.333)</u>	<u>0.283</u>	<u>(1.084)</u>

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



Consolidated Statements of Contributed Surplus and Deficit

Periods ended on September 30
(unaudited)

	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
	(3 months)	(3 months)	(9 months)	(9 months)
	\$	\$	\$	\$
CONTRIBUTED SURPLUS				
Balance, beginning of period	10,255,939	9,993,809	10,058,458	9,884,497
Stock-based compensation related to stock options vested (Note 14)	<u>2,210</u>	<u>32,149</u>	<u>199,691</u>	<u>141,461</u>
Balance, end of period	<u><u>10,258,149</u></u>	<u><u>10,025,958</u></u>	<u><u>10,258,149</u></u>	<u><u>10,025,958</u></u>
DEFICIT				
Balance, as previously reported	(50,059,462)	(48,413,587)	(54,603,185)	(41,491,722)
Restatement related to a correction of an error (Note 11)	<u>-</u>	<u>2,873,095</u>	<u>-</u>	<u>3,168,926</u>
Balance, as restated	(50,059,462)	(45,540,492)	(54,603,185)	(38,322,796)
Adjustment related to the extinguishment of convertible debentures (Note 11)	-	-	(979,037)	-
Net profit (loss)	<u>(1,752,033)</u>	<u>(3,356,741)</u>	<u>3,770,727</u>	<u>(10,574,437)</u>
Balance, end of period	<u><u>(51,811,495)</u></u>	<u><u>(48,897,233)</u></u>	<u><u>(51,811,495)</u></u>	<u><u>(48,897,233)</u></u>

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



Consolidated Statements of Cash Flows

Periods ended on September 30
(unaudited)

	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
	(3 months)	(3 months)	(9 months)	(9 months)
	\$	\$	\$	\$
OPERATING ACTIVITIES				
Net profit (loss)	(1,752,033)	(3,356,741)	3,770,727	(10,574,437)
Cash items:				
Transaction costs related to assets and liabilities transfer	-	-	(655,135)	-
Non-cash items:				
Stock-based compensation	2,210	32,149	65,293	141,461
Interest on convertible debentures	-	681,108	1,334,805	1,998,391
Interest on preferred shares	315,346	-	359,638	-
Exchange rate variation on convertible debentures	-	519,965	(1,397,580)	815,796
Exchange rate variation on preferred shares	(548,525)	-	(842,804)	-
Gain on extinguishment of convertible debentures related to liability component	-	-	(8,278,369)	-
Realized gain on assets and liabilities transfer	(83,912)	-	(1,696,228)	-
Amortization of property, plant and equipment	240,360	157,416	731,379	454,995
Write-down of intangible assets	-	-	-	1,261,338
Amortization of intangible assets	17,680	18,150	53,265	54,450
Changes in working capital items	(304,382)	35,298	2,534,192	(408,966)
Cash flows from operating activities	<u>(2,113,256)</u>	<u>(1,912,655)</u>	<u>(4,020,817)</u>	<u>(6,256,972)</u>
INVESTING ACTIVITIES				
Property, plant and equipment	(52,491)	(121,481)	(72,408)	(266,442)
Intangible assets	(61,091)	(5,874)	(231,680)	(90,759)
Cash flows from investing activities	<u>(113,582)</u>	<u>(127,355)</u>	<u>(304,088)</u>	<u>(357,201)</u>
FINANCING ACTIVITIES				
Capital contributions	1,222,223	-	3,944,444	-
Demand loan	-	765,000	950,000	765,000
Repayment of demand loan	-	-	(765,000)	-
Cash flows from financing activities	<u>1,222,223</u>	<u>765,000</u>	<u>4,129,444</u>	<u>765,000</u>
Net decrease in cash and cash equivalents	(1,004,615)	(1,275,010)	(195,461)	(5,849,173)
Cash and cash equivalents, beginning of period	<u>1,927,333</u>	<u>7,868,214</u>	<u>1,118,179</u>	<u>12,442,377</u>
Cash and cash equivalents, end of period	<u><u>922,718</u></u>	<u><u>6,593,204</u></u>	<u><u>922,718</u></u>	<u><u>6,593,204</u></u>

Supplementary information (Note 15)

Cash and cash equivalents are detailed as follows:

Cash at National Bank of Canada	922,718	1,323,001
Banker's acceptances, interest of 3.19% annually, matured October 1st, 2008	-	709,272
Money market securities, interest of 3.31% annually, matured October 29, 2008	-	4,560,931
	<u>922,718</u>	<u>6,593,204</u>

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



Consolidated Balance Sheets

As of September 30, 2009 and December 31, 2008

	(unaudited) 2009	2008
	\$	\$
ASSETS		
Current assets		
Cash and cash equivalents	922,718	1,118,179
Short-term investments (Note 6)	945,254	3,001,033
Accounts receivable (Note 7)	2,117,572	2,347,209
Prepaid expenses	215,050	428,850
Capital contributions receivable (Note 5)	2,444,444	-
	<u>6,645,038</u>	<u>6,895,271</u>
Property, plant and equipment (Note 8)	914,500	1,955,291
Intangible assets (Note 9)	5,910,119	8,444,457
	<u>13,469,657</u>	<u>17,295,019</u>
LIABILITIES		
Current liabilities		
Demand loan (Note 10)	950,000	765,000
Accounts payable and accrued liabilities	2,099,595	2,110,708
Deferred revenues	-	16,398
	<u>3,049,595</u>	<u>2,892,106</u>
Liability component of convertible debentures (Note 11)	-	16,413,460
Liability component of preferred shares (Note 12)	6,267,907	-
Unrealized gain on assets and liabilities transfer (Note 5)	1,066,748	-
	<u>10,384,250</u>	<u>19,305,566</u>
SHAREHOLDERS' EQUITY (Deficiency)		
Equity component of convertible debentures (Note 11)	-	1,551,780
Equity component of preferred shares (Note 12)	2,347,878	-
Capital stock (Note 12)	42,290,875	40,982,400
Contributed surplus	10,258,149	10,058,458
Deficit	(51,811,495)	(54,603,185)
	<u>3,085,407</u>	<u>(2,010,547)</u>
	<u>13,469,657</u>	<u>17,295,019</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



Notes to Consolidated Financial Statements

as of September 30, 2009 and December 31, 2008
(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 operates in two business segments. The Company's wholly owned subsidiary Victhom Bionized Inc. develops biomechatronic product candidates to support or replace peripheral limbs in what is known as the orthotics and prosthetics ("O&P") market. The Company also has a 44.4% interest in Neurostream Technologies, General Partnership ("Neurostream"), a joint venture with Otto Bock HealthCare GmbH ("Otto Bock"), which develops and commercializes devices that feature neurosensing and neurostimulation components integrated with artificial intelligence for the restoration of physiological functions.

In past years, the Company has incurred operating losses and had a working capital deficiency. Furthermore, the Company expects to incur additional expenditures to fund its continuing operations. 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. Management believes that, with its current financial resources and with the financial commitment of its joint venture partner, the Company will have sufficient liquidity to support its cash flow requirements for at least the next twelve months.

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, 2008, 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, 2008. The results of operations for the interim periods presented do not necessarily reflect results for the full year.

3 - ACCOUNTING POLICIES

Basis of consolidation

The unaudited interim consolidated financial statements include the assets, liabilities and operating results of the Company, its wholly owned subsidiary, and its 44.4% partnership interest in Neurostream. The Company accounts for its interest in Neurostream using the proportionate consolidation method. All significant inter-company balances and transactions have been eliminated on consolidation.

Adoption of new accounting policies

Effective:

On January 1, 2009, in accordance with the applicable transitional provisions, the Company adopted Section 3064, "Goodwill and Intangible Assets", which replaced Section 3062, "Goodwill and Other Intangible Assets" and Section 3450, "Research and Development Costs". This new section and various changes to other sections were issued in February 2008 by the Canadian Institute of Chartered Accountants. The adoption of this new accounting standard had no impact on the Company's consolidated financial statements.

4 - PLAN OF ARRANGEMENT

On June 16, 2009, at the Annual General and Special Meeting of the Company's shareholders and at a separate Special Meeting of the debenture holders, Victhom's security holders approved a Plan of Arrangement which included the following key elements:

i) the conversion of the convertible debentures into a newly created class of preferred shares, ii) the transfer of all assets and liabilities of Victhom's Neurobionix division to Neurostream in exchange for an initial 44.4% participation in Neurostream, iii) the transfer of all assets and liabilities of Victhom's Biotronix division to a newly created wholly owned subsidiary named Victhom Bionized Inc.; and iv) the consolidation of Victhom's common shares on a 10-for-1 basis.



Victhom Human Bionics

Notes to Consolidated Financial Statements

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4 - PLAN OF ARRANGEMENT (Continued)

Pursuant to the approval of the Plan of Arrangement, Victhom announced that it had completed the following transactions:

- 1) On June 17, 2009, the Québec Superior Court issued its final order approving the implementation of the Plan of Arrangement providing, *inter alia*, for the conversion of the 7% convertible debentures maturing in March 2010 in the capital amount of CAN\$ 18,354,000 into a newly created class of preferred shares, on the basis of 12.5 preferred shares (pre-consolidation) per dollar of capital converted and for the consolidation of Victhom's common shares on a 10-for-1 basis. (see Note 11)
- 2) Following the execution of a partnership agreement between Victhom and Otto Bock, on April 30, 2009, Victhom announced on June 18, 2009, the completion of the transaction contemplated by the partnership agreement.

As part of the Plan of Arrangement and pursuant to the partnership agreement, Victhom transferred all of the assets and liabilities of its Neurobionix division to Neurostream, concurrent with an initial equity investment by Otto Bock of CAN\$ 12.5 million in Neurostream. At closing, Neurostream is owned 55.6% by Otto Bock and 44.4% by Victhom. The partnership agreement also provides for additional contributions by Otto Bock of CAN\$ 17.5 million, totaling a contribution of CAN\$ 30 million over the next 2 ½ years to be mainly used to bring to market the Neurostep® System for the treatment of gait disorders but also to develop neuromodulation products in other indications. (see Note 5)

The unaudited interim consolidated financial statements give effect to the transactions approved under the Plan of Arrangement and reflect the pre-arrangement historical results of Victhom with the exception of basic and diluted loss per share amounts, descriptions and amounts of all common stock, stock options and warrants and their corresponding exercise prices where applicable, which have been recast, on a retroactive basis, to reflect the consolidation of Victhom's common shares on a 10-for-1 basis.

5 - JOINT VENTURE

On April 29, 2009, the Company entered into a partnership agreement to establish a joint venture with Otto Bock, Neurostream, to develop and commercialize products previously developed by Victhom's Neurobionix division.

In consideration of this transaction, Victhom received units of Neurostream for an aggregate consideration of CAN\$ 10 million and CAN\$ 1.5 million in cash. This investment has generated an adjusted gain of CAN\$ 2.8 million after transaction costs. The following table summarizes the book value of the assets and liabilities transferred as of June 17, 2009:

	<u>\$</u>
Ownership of a subsidiary	10
Accounts receivable	1,946
Prepaid expenses	211,796
Property, plant and equipment	716,377
Patents	548,462
Accounts payable and accrued liabilities	(647,122)
Acquired technology	7,149,621
	<u>7,981,090</u>

The following table summarizes the impact of this transfer on the balance sheet and operating results:

		<u>\$</u>
Investment in the joint venture	Balance sheet	10,000,000
Cash received from the joint venture	Balance sheet	1,500,000
Assets and liabilities transferred	Balance sheet	(7,981,090)
Transaction costs	Operating results	(755,934)
		<u>2,762,976</u>



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5 - JOINT VENTURE (Continued)

Realized gain on assets and liabilities transfer	Operating results	1,696,228
Unrealized gain on assets and liabilities transfer	Balance sheet	1,696,228
		<u>2,762,976</u>

The unrealized gain on assets and liabilities transfer will be taken to income: i) on a basis appropriate to the expected revenues to be obtained from their use by the joint venture; ii) based on variation of Victhom's percentage interest in the Neurostream joint venture; or iii) based on their estimated useful life.

As of September 30, 2009, the following table summarizes the Company's proportionate interest relating to the joint venture:

	<u>2009</u>	<u>2009</u>
	(3 months)	(9 months)
	\$	\$
Current assets (1)		3,150,670
Long-term assets		5,277,282
Current liabilities		418,605
Long-term liabilities		-

(1) The current assets include \$2.4 million in capital contributions receivable from Otto Bock, which represent the balance of the initial investment of \$5.6 million in the Neurostream joint venture.

Revenues	-	-
Expenses	1,112,098	1,859,934
Net loss	1,112,098	1,859,934
Cash flows from operating activities	(993,610)	(1,826,988)
Cash flows from investing and financing activities	1,164,968	2,370,208

The joint venture has entered into lease agreements, expiring on October 31, 2012, which call for the payment of \$195,357 for the rental of premises. The Company's proportionate interest during the next years amount to \$39,130 in 2009, \$122,053 in 2010, \$18,640 in 2011, and \$15,534 in 2012.

6 - SHORT-TERM INVESTMENTS

	<u>2009</u>	2008
	\$	\$
Commercial paper, bearing interest of 0.42% annually, maturing in December 2009	850,146	-
Commercial paper, bearing interest of 1.58% annually, matured in June 2009	-	3,001,033
Guaranteed investment certificate, bearing interest of 0.37% annually, provided as security on the demand loan, maturing in January 2010	95,108	-
	<u>945,254</u>	<u>3,001,033</u>



Victhom Human Bionics

Notes to Consolidated Financial Statements

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7 - ACCOUNTS RECEIVABLE

	2009	2008
	\$	\$
Investment tax credits receivable	1,958,305	2,301,982
Sales taxes receivable	125,232	45,227
Trade accounts receivable	34,035	-
	<u>2,117,572</u>	<u>2,347,209</u>

8 - PROPERTY, PLANT AND EQUIPMENT

	2009		
	Cost	Accumulated amortization	Net
	\$	\$	\$
Computer equipment	1,474,295	1,111,792	362,503
Furniture and equipment	1,680,207	1,128,210	551,997
Leasehold improvements	1,491,798	1,491,798	-
	<u>4,646,300</u>	<u>3,731,800</u>	<u>914,500</u>
	2008		
	Cost	Accumulated amortization	Net
	\$	\$	\$
Computer equipment	1,674,547	1,155,877	518,670
Furniture and equipment	2,235,790	1,296,902	938,888
Leasehold improvements	1,491,798	994,065	497,733
	<u>5,402,135</u>	<u>3,446,844</u>	<u>1,955,291</u>

9 - INTANGIBLE ASSETS

	2009		
	Cost	Accumulated amortization	Net
	\$	\$	\$
Patents	1,357,181	188,632	1,168,549
Acquired technology	4,741,570	-	4,741,570
	<u>6,098,751</u>	<u>188,632</u>	<u>5,910,119</u>
	2008		
	Cost	Accumulated amortization	Net
	\$	\$	\$
Patents	1,430,203	135,367	1,294,836
Acquired technology	7,149,621	-	7,149,621
	<u>8,579,824</u>	<u>135,367</u>	<u>8,444,457</u>

During the first nine months of 2009, the Company acquired \$231,680 (\$83,206 in 2008) in patents and took a write-down of \$0 (\$1,261,338 in 2008).



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10 - CREDIT FACILITIES

During the third quarter of 2008, the Company obtained credit facilities totaling \$1,615,000 with a Canadian bank. The credit facilities were composed of: i) a demand loan for \$765,000, secured by 2007 investment tax credits receivable; and ii) a demand loan for \$850,000, secured by 2008 investment tax credits receivable. The credit facilities were secured by a first call of \$1,665,000 on the universality of the Company's property, with the exception of intellectual properties, bearing interest at prime rate plus 1.5% (3.75%), maturing with the receipt of the related investment tax credits receivable. In January 2009, the demand loan of \$765,000 was reimbursed with the receipt of the 2007 investment tax credits receivable. In February 2009, the credit facilities and the related guarantee were canceled following management's request.

During the second quarter of 2009, the Company obtained credit facilities for a demand loan totaling \$950,000 with a Canadian bank. The demand loan is secured by: i) the 2008 investment tax credits receivable; ii) a first call of \$1,000,000 on the universality of the Company's property with the exception of intellectual properties; and iii) a certificate of guarantee issued by Investissement Québec for a maximum of 80% of the demand loan.

As per the credit facility requirements, the Company has invested 10% of the demand loan in a guaranteed investment certificate, maturing in January 2010. The demand loan is bearing interest at prime rate plus 2.5% (3.0%) and maturing with the receipt of the related investment tax credits receivable.

Pursuant to the terms and conditions of the credit facilities, the Company is subject to certain debt covenants with regard to maintaining financial ratios. As of September 30, 2009, all debt covenants are respected.

11 - CONVERTIBLE DEBENTURES

The following table illustrates variations in the periods:

	Liability component	Equity component
	\$	\$
Balance as of December 31, 2007 ^(a)	11,721,505	1,551,780
Imputed interest	1,998,391	-
Payment of interest	(649,528)	-
Exchange rate loss	815,796	-
Balance as of September 30, 2008	<u>13,886,164</u>	<u>1,551,780</u>
Imputed interest	710,922	-
Payment of interest	(656,666)	-
Exchange rate loss	2,473,040	-
Balance as of December 31, 2008	<u>16,413,460</u>	<u>1,551,780</u>
Imputed interest	1,334,805	-
Payment of interest	(603,133)	-
Exchange rate gain	(1,397,580)	-
Conversion into preferred shares ^(b)	<u>(15,747,552)</u>	<u>(1,551,780)</u>
Balance as of September 30, 2009	<u><u>-</u></u>	<u><u>-</u></u>



Notes to Consolidated Financial Statements

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11 - 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 transaction 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.

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. As of June 17, 2009, the principal amount of the convertible debentures was converted into preferred shares.

- (b) On June 17, 2009, as a result of the completion of the conversion of the convertible debentures into preferred shares, the Company recorded a gain of \$8,278,369. This gain resulted from the difference between the carrying-amount of the liability components of the preferred shares and the convertible debentures at the time of conversion. Furthermore, an adjustment of \$979,037 was accounted for as an increase of deficit, resulting from the difference between the carrying-amount of the equity components of the preferred shares and the convertible debentures.

Correction of an error in prior financial statements

During the third quarter of 2008, the Company discovered an accounting discrepancy in its previously reported consolidated financial statements for fiscal years 2005 to 2007. The convertible debentures have a par value of CAN\$ 18,354,000 and the biannual interest amounts are payable in Canadian dollars, but all repayments of the principal amount have to be in U.S. dollars at a fixed exchange rate of CAN\$ 1.2104 for each US\$ 1.00. Therefore, the monetary liability in foreign currency should have been converted, since the beginning, at the closing exchange rate of the periods. This restatement had no cash impact. The comparative figures have been restated to reflect the exchange rate variation of the period.

In 2009, the US/CAN exchange rate variation generated a non-cash gain of \$1,397,580 on the liability component of the convertible debentures. As of June 17, 2009, the cumulative exchange rate gain on the liability component of the convertible debentures was \$1,277,672.

12 - CAPITAL STOCK

Authorized

An unlimited number of shares, without par value and entitled to dividends *pari passu* with all other classes of shares:

Common shares, voting and participating, subordinated to preferred shares.

Series A preferred shares, non-voting

- | | |
|---|---|
| Liquidation, dissolution or winding-up: | The holders will be entitled, in priority to all other classes of shares, to receive a sum equivalent to the initial redemption amount which is the aggregate principal amount in Canadian dollars of the 7% due March 2010 convertible debentures of the Company immediately prior to the issuance of the Series A preferred shares. |
| Redemption: | Redeemable at the Company's option, at any time and from time to time, in whole or any part, at an amount per share of US\$ 0.66 plus all dividends declared and unpaid, for a equivalent amount of CAN\$ 18,354,000. |
| Required redemption: | Upon receipt of any payment outside the normal course of business, the Company shall be required to redeem the Series A preferred shares, using an amount equal to 80% of any such payment received. However, the first CAN\$ 2,000,000 of such payment will be excluded from this obligation. All other terms of the redemption clause shall apply <i>mutatis mutandis</i> . |
| Conversion: | Convertible, at any time and from time to time, at the holder's option into a number of common shares determined by dividing the initial redemption amount plus all dividends declared and unpaid by a conversion price of CAN\$ 0.80 per share. |



Notes to Consolidated Financial Statements

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12 - CAPITAL STOCK (Continued)

Series B preferred shares, non-voting and issuable in one or more series with the designation, rights, privileges, restriction, price, terms and conditions to be determined by a resolution of the Board of Directors. The Series B preferred shares will rank, with respect to liquidation, dissolution or winding-up of the Company, in priority to the common shares.

Common shares issued and fully paid

The following table indicates changes in the Company's common shares over the periods:

(Reflecting the Company's common shares consolidation on June 18, 2009)

	Number	Amount \$
Balance as of December 31, 2007	9,589,248	39,676,206
Shares issued related to interest due on convertible debentures	501,180	649,528
Balance as of September 30, 2008	<u>10,090,428</u>	<u>40,325,734</u>
Shares issued related to interest due on convertible debentures	2,218,464	656,666
Balance as of December 31, 2008	<u>12,308,892</u>	<u>40,982,400</u>
Shares issued related to interest due on convertible debentures	1,343,281	603,133
Conversion of Series A Preferred Shares	1,658,389	705,342
Balance as of September 30, 2009	<u>15,310,562</u>	<u>42,290,875</u>

Series A preferred shares issued and fully paid

The following table indicates changes in the Company's Series A preferred shares over the periods:

(Reflecting the Company's common shares consolidation on June 18, 2009)

	Number	Liability component \$	Equity component \$
Balance as of December 31, 2008	-	-	-
Conversion of convertible debentures into preferred shares	22,942,500	7,469,183	2,530,817
Transaction costs	-	(195,707)	-
Imputed interest	-	359,638	-
Exchange rate gain	-	(842,804)	-
Conversion into common shares	<u>(1,658,389)</u>	<u>(522,403)</u>	<u>(182,939)</u>
Balance as of September 30, 2009	<u>21,284,111</u>	<u>6,267,907</u>	<u>2,347,878</u>

The equity component of the Series A preferred shares has been established, at the date of issue, using the Black-Schole option pricing model, based on the following assumptions: expected volatility of 60%, risk-free interest rate of 2.65%, no expected dividends and expected life of 5 years. The liability component represents the value attributed to the difference between the fair value of the Series A preferred shares issued and the equity component. The interest expense will be recognized into operating results using an effective rate of 18.52%, which was established based on management's best knowledge of future events.

All repayments of the redemption amount shall be made in U.S. dollars at a fixed exchange rate of CAN\$ 1.2104 for each US\$ 1.00. During the third quarter of 2009, 1,658,389 Series A preferred shares for a redemption amount of US\$ 1,096,093 were converted into common shares. As of September 30, 2009, the redemption amount of the Series A preferred shares was US\$ 14,067,489 or CAN\$ 15,062,060.



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12 - CAPITAL STOCK (Continued)

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 nine-month period ended on September 30, 2009 and the year ended on December 31, 2008.

As of September 30, 2009, the following warrants were outstanding:

(Reflecting the Company's common shares consolidation on June 18, 2009)

Range of exercise prices	Number of outstanding warrants	Weighted average remaining contractual life (in years)	Weighted average exercise price \$
\$ 4.50 to \$ 6.17	1,889,525	0.46	4.50
\$11.66 to \$16.00	706,969	0.50	16.00
\$ 4.50 to \$16.00	2,596,494	0.47	7.63

13 - RELATED PARTY TRANSACTIONS

During the third quarter of 2009, the Company recorded \$5,000 (\$0 in 2008) as professional fees with an entity controlled by a director. As of September 30, 2009, there was \$5,698 (\$0 in 2008) due to the related party entity. These transactions were accounted for at the exchange amount, which is the consideration established and agreed upon the related parties.

14 - 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 2009, the fair value of the stock options 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% (same in 2008), risk-free interest rate of 1.71% (3.72% in 2008), no expected dividends and expected life of 4 years (6 years in 2008). The weighted average fair value of the stock options granted during 2009 is \$0.12 (\$0.07 in 2008).



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14 - 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: (Reflecting the Company's common shares consolidation on June 18, 2009)

	Number	Weighted average exercise price \$
Outstanding, as of December 31, 2007	630,800	5.10
Granted	200,000	1.20
Forfeited	(150,000)	4.60
Outstanding, as of September 30, 2008	680,800	4.10
Granted	6,500	1.20
Outstanding, as of December 31, 2008	687,300	4.00
Granted	50,000	0.25
Canceled	(81,867)	3.74
Outstanding, as of September 30, 2009	655,433	3.79
Exercisable, as of September 30, 2009	(373,398 at \$6.04 in 2008)	3.86

For the three-month period ended on September 30, 2009, the Company added \$2,210 (\$32,149 in 2008) to the stock-based compensation. For the first nine months of 2009, the Company recorded \$65,293 (\$141,461 in 2008) as stock-based compensation and \$134,398 as transactions costs against the gain on assets and liabilities transfer, for a total amount of \$199,691.

As of September 30, 2009, the following stock options were outstanding:

(Reflecting the Company's common shares consolidation on June 18, 2009)

Range of exercise prices	Number of outstanding options	Weighted average remaining contractual life (in years)	Weighted average exercise price \$
\$ 0.25 to \$ 0.36	50,000	4.46	0.25
\$ 0.37 to \$ 0.54	6,500	9.08	0.40
\$ 0.81 to \$ 1.18	15,000	8.75	0.95
\$ 1.19 to \$ 1.73	331,883	8.29	1.46
\$ 2.53 to \$ 3.68	95,000	7.58	3.20
\$ 3.69 to \$ 5.36	46,800	2.71	5.30
\$ 5.37 to \$ 7.80	10,000	2.13	6.30
\$ 7.81 to \$11.35	8,000	5.54	9.38
\$11.36 to \$16.00	92,250	3.69	13.86
\$ 0.25 to \$16.00	655,433	6.74	3.79



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14 - STOCK-BASED COMPENSATION (Continued)

As of September 30, 2009, the following stock options were exercisable:

(Reflecting the Company's common shares consolidation on June 18, 2009)

Range of exercise prices	Number of exercisable options	Weighted average exercise price \$
\$ 0.25 to \$ 0.36	50,000	0.25
\$ 0.37 to \$ 0.54	3,047	0.40
\$ 0.81 to \$ 1.18	8,437	0.95
\$ 1.19 to \$ 1.73	324,112	1.46
\$ 2.53 to \$ 3.68	95,000	3.20
\$ 3.69 to \$ 5.36	46,800	5.30
\$ 5.37 to \$ 7.80	10,000	6.30
\$ 7.81 to \$11.35	8,000	9.38
\$11.36 to \$16.00	92,250	13.86
<u>\$ 0.25 to \$16.00</u>	<u>637,646</u>	<u>3.86</u>

15 - SUPPLEMENTARY INFORMATION

	<u>2009</u> (3 months) \$	<u>2008</u> (3 months) \$	<u>2009</u> (9 months) \$	<u>2008</u> (9 months) \$
Supplementary cash flow information:				
Interest paid	11,115	192	18,400	822
Non-cash financing activities:				
Issuance of preferred shares pursuant to plan of arrangement	-	-	10,000,000	-
Transaction costs related to issuance of preferred shares	-	-	(61,309)	-
Stock-based compensation related to assets and liabilities transfer	-	-	(134,398)	-
Common shares issued related to:				
interest due on convertible debentures	-	-	603,133	649,528
conversion of preferred shares	705,342	-	705,342	-
Non-cash impact of joint venture transaction:				
Changes in working capital items	-	-	207,912	-
Capital contributions receivable	-	-	(3,666,667)	-
Property, plant and equipment	-	-	(381,888)	-
Intangible assets	(60,748)	-	(2,834,249)	-



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16 - INFORMATION INCLUDED IN THE CONSOLIDATED STATEMENT OF OPERATIONS

	2009	2008	2009	2008
	(3 months)	(3 months)	(9 months)	(9 months)
	\$	\$	\$	\$
Research and development expenses (1)	1,527,344	2,198,435	6,753,174	6,263,097
Write-down of intangible assets	-	-	-	1,261,338
Amortization of property, plant and equipment	242,570	157,416	734,097	454,995
Amortization of intangible assets	17,680	18,150	53,265	54,450
Stock-based compensation	2,210	32,149	65,293	141,461
Financial expenses				
Interest income on held-for-trading assets	(482)	(54,193)	(28,186)	(243,596)
Interest on demand loan and convertible debentures	9,207	681,203	1,347,550	1,999,102
Interest on preferred shares	315,346	-	359,638	-
Exchange loss (gain) on operations	22,603	21,126	(27,638)	5,810
Exchange loss (gain) on liability component of convertible debentures	-	519,965	(1,397,580)	815,796
Exchange gain on liability component of preferred shares	(548,525)	-	(842,804)	-
Other financial expenses	5,209	9,785	45,412	11,319
	(196,642)	1,177,886	(543,608)	2,588,431

(1) Research and development expenses are presented net of stock-based compensation, amortization of property, plant and equipment, and amortization of intangible assets.

17 - FINANCIAL INSTRUMENTS

Risk Management Policies

The Company, through its financial assets and liabilities, is exposed to various risks. The following analysis provides a measurement of risks as of the balance sheet dates. The Company's financial assets and liabilities are its cash and cash equivalents, short-term investments, accounts receivable, capital contributions receivable, demand loan, accounts payable, convertible debentures and its preferred shares.

Fair Value

As of September 30, 2009 and December 31, 2008, the fair value of cash and cash equivalents, short-term investments, accounts receivable, capital contributions receivable, demand loan, and accounts payable and accrued liabilities approximates their carrying-amount given that they will mature shortly. The fair value of the convertible debentures and the preferred shares approximates the carrying-amount.

Credit Risk

The Company's 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 consist of cash and cash equivalents, short-term investments and accounts receivable. As of September 30, 2009, the Company has cash and cash equivalents for an amount of \$922,718 (\$1,323,001 in 2008) with a reputable financial institution and \$945,254 (\$5,270,203 in 2008) in banker's acceptances, money market securities and short-term investments. Management assesses the Company's credit risk to be low.



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17 - FINANCIAL INSTRUMENTS (Continued)

Liquidity Risk

The Company is exposed to liquidity risk since its Series A preferred shares are redeemable. Management assesses the Company's liquidity risk to be low, since its financial obligations shall be met with payments received outside the normal course of business. (see Note 12).

Exchange Risk

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. Management assesses the Company's currency risk to be significant.

As of September 30, 2009, the Company has assets and liabilities in foreign currency including cash and cash equivalents in the amount of US\$ 381,620 (US\$ 166,223 in 2008), accounts receivable in the amount of US\$ 29,336 (US\$ 14,230 in 2008), and accounts payable in the amount of US\$ 261,250 (US\$ 440,450 in 2008).

The Company is exposed to currency risk on the payment of the redemption amount of Series A preferred shares which shall be made at a fixed exchange rate of CAN\$ 1.2104 for each US\$ 1.00. An exchange rate variation of 5% will generate a gain or (loss) of \$703,374.

Interest Rate Risk

The Company is exposed to interest rate risk on demand loan. Management does not believe that interest rate fluctuations will have a significant impact.

18 - CAPITAL STRUCTURE FINANCIAL POLICY

The Company's objectives when managing capital are to: i) safeguard the Company's ability to pursue the development of its medical device products; ii) invest cash to earn the highest possible amount of interest income; and iii) maintain a flexible capital structure which optimizes the cost of capital at an acceptable risk.

In the management of capital, the Company includes shareholders' equity, long-term debt, preferred shares, 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 declare dividends.

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

The Company does not have externally imposed capital requirements. However, the Company is subject to certain debt covenants in its credit facility agreement, which are measured on a quarterly basis for Vichthom Human Bionics Inc. non-consolidated. During the third quarter of 2009, the Company was compliant with all debt covenant requirements, which are: i) minimum cash balance of \$1,000,000; and ii) minimum net equity of \$3,000,000.



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19 - SEGMENTED INFORMATION

The Company has two reportable operating segments, as defined in Note 1, which have been determined based on the fact that: i) Neurobionix segment is operated separately from the Company in Neurostream, a joint venture with Otto Bock; ii) specific devices are developed by separate teams for different markets; and iii) Biotronix segment represents almost all of the Company's revenues.

For the first nine months of 2009, the Company generated revenues from non-refundable advance royalties for an amount of \$1,393,591 (\$1,604,532 in 2008), from support activities for an amount of \$16,398 (\$38,058 in 2008), and from other sources for an amount of \$31,845 (\$46,178 in 2008). Revenues are almost entirely derived from a European medical device company located in Iceland.

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

The results of operations for the periods are presented in the table below:

	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
	(3 months)	(3 months)	(9 months)	(9 months)
	\$	\$	\$	\$
BIOTRONIX				
Revenues	<u>264,186</u>	<u>531,977</u>	<u>1,441,834</u>	<u>1,678,662</u>
Expenses				
Research and development	414,004	567,364	1,659,966	1,634,471
Tax credits and grants	<u>63,580</u>	<u>(63,655)</u>	<u>(207,631)</u>	<u>(254,899)</u>
	<u>477,584</u>	<u>503,709</u>	<u>1,452,335</u>	<u>1,379,572</u>
NEUROBIONIX				
Revenues	-	-	-	10,106
Expenses				
Research and development	1,189,248	1,899,663	5,369,291	6,990,131
Tax credits and grants	<u>(98,598)</u>	<u>(88,063)</u>	<u>(487,296)</u>	<u>(489,011)</u>
	<u>1,090,650</u>	<u>1,811,600</u>	<u>4,881,995</u>	<u>6,501,120</u>

20 - COMPARATIVE FIGURES

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