



**Consolidated Financial Statements
December 31, 2009 and 2008**

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Raymond Chabot Grant Thornton

Auditors' Report

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To the Shareholders of
Victhom Human Bionics Inc.

We have audited the consolidated balance sheets of Victhom Human Bionics Inc. as at December 31, 2009 and 2008 and the consolidated statements of operations and comprehensive income, contributed surplus, deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Raymond Chabot Grant Thornton LLP¹

Québec, March 31, 2010

¹ Chartered accountant auditor permit no. 9640



Consolidated Statements of Operations and Comprehensive Income

Years ended on December 31

	2009	2008
	\$	\$
Revenues	1,570,476	2,286,468
Expenses		
Research and development	8,411,117	10,100,239
Tax credits and grants	(796,739)	(1,098,782)
General and administrative	2,154,633	2,429,071
Financial	(333,205)	5,791,885
	9,435,806	17,222,413
Impairment of intangible assets (Note 9)	-	1,344,444
Restructuring charges (Note 14)	245,274	-
Gain on extinguishment of convertible debentures related to liability component (Note 11)	(8,278,369)	-
Realized gain on assets and liabilities transfer (Note 4)	(1,518,102)	-
	(115,391)	18,566,857
Net profit (loss) and comprehensive income	1,685,867	(16,280,389)
Weighted average number of common shares outstanding	13,837,411	9,841,207
Net profit (loss) per share		
Basic	0.122	(1.654)
Diluted	0.122	(1.654)

The accompanying notes are an integral part of the consolidated financial statements and Note 17 provides additional information on the consolidated statements of operations.



Consolidated Statement of Contributed Surplus and Deficit

Years ended on December 31

	<u>2009</u>	<u>2008</u>
	\$	\$
CONTRIBUTED SURPLUS		
Balance, beginning of year	10,058,458	9,884,497
Stock-based compensation related to stock options vested (Note 13)	203,118	173,961
Balance, end of year	<u>10,261,576</u>	<u>10,058,458</u>
DEFICIT		
Balance, beginning of year	(54,603,185)	(38,322,796)
Adjustment related to the extinguishment of convertible debentures (Note 11)	(979,037)	-
Net profit (loss)	<u>1,685,867</u>	<u>(16,280,389)</u>
Balance, end of year	<u>(53,896,355)</u>	<u>(54,603,185)</u>

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

Consolidated Statements of Cash Flows

Years ended on December 31

	2009	2008
	\$	\$
OPERATING ACTIVITIES		
Net profit (loss)	1,685,867	(16,280,389)
Non-cash items:		
Stock-based compensation	68,720	173,961
Interest on convertible debentures	1,334,805	2,709,313
Interest on preferred shares	696,806	-
Exchange rate variation on convertible debentures	(1,397,580)	3,288,836
Exchange rate variation on preferred shares	(996,920)	-
Gain on extinguishment of convertible debentures related to liability component	(8,278,369)	-
Realized gain on assets and liabilities transfer	(1,518,102)	-
Restructuring charges	104,162	-
Amortization of property, plant and equipment	802,587	730,624
Amortization of intangible assets	74,777	62,767
Impairment of intangible assets	-	1,344,444
Changes in working capital items	(301,094)	(683,282)
Cash flows from operating activities	<u>(7,724,341)</u>	<u>(8,653,726)</u>
INVESTING ACTIVITIES		
Short-term investments	2,905,000	(3,000,000)
Assets and liabilities transfer	212,704	-
Disposal of property, plant and equipment	525,200	-
Property, plant and equipment	(149,336)	(284,909)
Intangible assets	(295,527)	(150,563)
Cash flows from investing activities	<u>3,198,041</u>	<u>(3,435,472)</u>
FINANCING ACTIVITIES		
Capital contributions	4,333,333	-
Demand loan	950,000	765,000
Repayment of demand loan	(765,000)	-
Cash flows from financing activities	<u>4,518,333</u>	<u>765,000</u>
Net decrease in cash and cash equivalents	(7,967)	(11,324,198)
Cash and cash equivalents, beginning of year	<u>1,118,179</u>	<u>12,442,377</u>
Cash and cash equivalents, end of year	<u><u>1,110,212</u></u>	<u><u>1,118,179</u></u>
Supplementary information (Note 16)		
Cash and cash equivalents are detailed as follows:		
Cash in National Bank of Canada	1,110,212	221,495
Money market securities, interest of 2.97% annually, matured January 28, 2009	-	896,684
	<u><u>1,110,212</u></u>	<u><u>1,118,179</u></u>

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



Consolidated Balance Sheets

As of December 31

	2009	2008
	\$	\$
ASSETS		
Current assets		
Cash and cash equivalents	1,110,212	1,118,179
Short-term investments (Note 6)	95,196	3,001,033
Accounts receivable (Note 7)	2,239,921	2,347,209
Prepaid expenses	114,553	428,850
Capital contributions receivable (Note 4)	1,222,222	-
	<u>4,782,104</u>	<u>6,895,271</u>
Property, plant and equipment (Note 8)	621,387	1,955,291
Intangible assets (Note 9)	5,456,206	8,444,457
	<u>10,859,697</u>	<u>17,295,019</u>
LIABILITIES		
Current liabilities		
Demand loan (Note 10)	950,000	765,000
Accounts payable and accrued liabilities	1,500,038	2,110,708
Deferred revenues	-	16,398
	<u>2,450,038</u>	<u>2,892,106</u>
Liability component of convertible debentures (Note 11)	-	16,413,460
Liability component of preferred shares (Note 12)	6,374,413	-
Unrealized gain on assets and liabilities transfer (Note 4)	954,726	-
	<u>9,779,177</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)	2,323,747	-
Capital stock (Note 12)	42,391,552	40,982,400
Contributed surplus	10,261,576	10,058,458
Deficit	(53,896,355)	(54,603,185)
	<u>1,080,520</u>	<u>(2,010,547)</u>
	<u>10,859,697</u>	<u>17,295,019</u>

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

On behalf of the Board,

/s/ Daniel Johnson
Chairman

/s/ Nitin Kaushal
Director



Notes to Consolidated Financial Statements

as of December 31, 2009 and 2008

1 - GOVERNING STATUTES AND NATURE OF OPERATIONS

Victhom 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. Victhom operates in two business segments. Victhom Biotronix business developed the Power Knee, the world's first and only motor-powered, artificially intelligent prosthesis for above-knee amputees. Victhom's Biotronix partner, Ossur, a global leader in the orthotics and prosthetics ("O&P") market, has the exclusive rights to commercialize the Power Knee. Victhom Neurobionix business, through the joint venture, Neurostream Technologies, G.P. ("Neurostream"), develops and commercializes neuromodulation products. Victhom has a 44.4% interest in Neurostream, a joint venture with Otto Bock HealthCare (Otto Bock), which objective is to bring to market the Neurostep[®] System, and to develop neuromodulation products in other indications such as sleep apnea.

In past years, the Company has incurred operating losses and had a working capital deficiency. Furthermore, the Company expects to incur additional expenditures to complete the development and marketing of its Neurobionix products. Its ability to generate future revenues and cash flows from its Neurobionix 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 - ACCOUNTING POLICIES

Basis of consolidation

The 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.

Accounting estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts recorded in the financial statements and notes to financial statements. These estimates are based on management's best knowledge of current events and actions that the Company may undertake in the future. Actual results may differ from these estimates mainly regarding the amount receivable from investment tax credits and the carrying value of the patents.

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.

Cash and cash equivalents

The Company's policy is to present short-term investments with a term of three months or less from the acquisition date with cash and cash equivalents.

Notes to Consolidated Financial Statements

as of December 31, 2009 and 2008

2 - ACCOUNTING POLICIES (Continued)

Property, plant and equipment

Property, plant and equipment are recorded at cost and are amortized over their estimated useful life according to the diminishing balance method and the following annual rates:

	<u>Rates</u>
Computer equipment	30%
Furniture and equipment	20%

The leasehold improvements are amortized over the term of each lease agreement using the straight-line basis.

Intangible assets

Patents are recorded at cost and are amortized on a straight-line basis over ten years beginning the year in which the developed products are marketed.

The acquired technology is recorded at the acquisition cost. The technology will be amortized on a straight-line basis over ten years beginning the year in which the developed products are marketed.

Long-term asset depreciation

Depreciable property, plant and equipment and intangible assets are tested for impairment whenever events or changes in circumstances indicate that their carrying-amount may not be recoverable. An impairment loss would be recognized when estimated future cash flows expected to result from the use of the asset and its eventual disposition are less than its carrying-amount. In such case, the impairment to be recognized is measured by the amount by which the carrying-amount of the asset exceeds the fair value.

Share issuance costs

The financing costs related to the issuance of common shares are recorded against the proceeds amount of the common shares issued.

Financial assets and liabilities

On initial recognition, all financial assets and liabilities are measured and recognized at their fair value, except for financial assets and liabilities resulting from certain related party transactions. Transaction costs from held-for-trading financial assets and liabilities are recognized in earnings and presented under financial expenses. Transaction costs from available-for-sale financial assets, held-to-maturity investments, loans and receivables increase the carrying-amount of the related financial assets. Transaction costs from other financial liabilities reduce the carrying-amount of the related financial liabilities. Regular-way purchases or disposals of financial assets are recognized at the transaction date.

Subsequently, financial assets and liabilities are measured and recognized as follows:

Held-for-trading financial assets and liabilities are measured at their fair value and changes in fair value are recognized in earnings. Changes in fair value that are recognized in earnings include interest and dividend income, exchange gains or losses, and realized and unrealized gains or losses, and are presented under financial expenses. The Company has classified its cash and has designated its cash equivalents and short-term investments as held-for-trading because it considers that the financial information generated by this classification is more relevant for decision-making and provides better means for evaluating the Company's performance.

Notes to Consolidated Financial Statements

as of December 31, 2009 and 2008

2 - ACCOUNTING POLICIES (Continued)

Available-for-sale financial assets, except for share investments in private companies, are measured at their fair value. Related unrealized gains and losses are recognized in other comprehensive income until these gains or losses are realized or a decline in value of the financial assets is other than temporary. For available-for-sale financial assets in foreign currency, exchange gains and losses are included in the unrealized gains or losses in other comprehensive income.

When an investment is sold or sustains an impairment loss, the gain or loss accumulated in comprehensive income is then reclassified in the earnings under financial expenses.

Held-to-maturity investments, loans and receivables, and other financial liabilities are measured at amortized cost using the effective interest method (including any impairment in the case of financial assets). Interest calculated using the effective interest method is presented under financial expenses. Trade accounts and capital contribution receivable are classified as loans and receivables. The accounts payable and accrued liabilities as well as the demand loan, the convertible debentures and the preferred shares are classified as other financial liabilities.

Revenue recognition

By virtue of commercial license agreements, 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 any other research and development agreements are recognized, based on the contract signed by the parties, when the services and/or the products 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 periods.

Research and development costs and investment tax credits

Research costs are expensed as they are incurred. Development costs are deferred when they meet the generally accepted criteria to the extent that their recovery can reasonably be regarded as assured.

Research and development tax credits are applied against the related costs in the year during which they are incurred. Investment tax credits for property, plant and equipment are presented as deferred credits and amortized to income on the same basis as the related amortizable property, plant and equipment are amortized. The investment tax credits must be examined and approved by the tax authorities and the amounts granted might differ from the amounts recorded.

Stock option plan

The Company provides a stock option plan, which is described in Note 13. A stock-based compensation expense is recognized with respect to this plan. Any consideration paid when exercising stock options and any contributed surplus related to these options are credited to capital stock.



Notes to Consolidated Financial Statements

as of December 31, 2009 and 2008

2 - ACCOUNTING POLICIES (Continued)

Earnings per share

Basic earnings per common share are computed by dividing the net earnings available to common shareholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share are calculated giving effect to the potential dilution that would occur if securities or other contracts to issue common shares were exercised or converted to common shares at the later of the beginning of the year or the issuance date. The treasury stock method is used to determine the dilutive effect of stock options and warrants. The "if-converted" method is used to determine the dilutive effect of preferred shares.

For 2009, the preferred shares, the warrants and the stock options were included in the calculation and had no impact on the diluted earnings per share. In 2008, the convertible debentures, the warrants and the stock options were not included in the calculation because the Company reported losses and the inclusion of the securities would be anti-dilutive.

Income taxes

The Company uses the tax liability method to account for income taxes. Under this method, future tax assets and liabilities are determined according to differences between the carrying amounts and tax bases of the assets and liabilities. They are measured by applying enacted or substantively enacted tax rates and laws at the date of the financial statements for the years in which the temporary differences are expected to reverse. The Company records a valuation allowance for future income tax asset if, based on available information, it is more likely than not that some or all of the future income tax asset will not be realized.

3 - 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.

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 1.25 preferred shares (post-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 4)

The 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.



Victhom Human Bionics

Notes to Consolidated Financial Statements
as of December 31, 2009 and 2008

4 - JOINT VENTURE

On April 30, 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\$ 2,472,828 after transaction costs. The following table summarizes the book value of the assets and liabilities transferred as of June 17, 2009:

	<u>\$</u>
Prepaid expenses	209,099
Property, plant and equipment	707,654
Patents	548,462
Accounts payable and accrued liabilities	(309,122)
Acquired technology	7,149,621
	<u>8,305,714</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	(8,305,714)
Transaction costs	Operating results	(721,458)
		<u>2,472,828</u>
Realized gain on assets and liabilities transfer	Operating results	1,518,102
Unrealized gain on assets and liabilities transfer	Balance sheet	954,726
		<u>2,472,828</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 December 31, 2009, the following table summarizes the Company's proportionate interest relating to the joint venture:

	<u>2009</u>
	<u>\$</u>
Current assets (1)	1,698,034
Long-term assets	5,237,171
Current liabilities	258,265

(1) The current assets include \$1,222,222 in capital contributions receivable from Otto Bock, which represent the balance of the initial investment of \$5,555,555 in the Neurostream joint venture.

Revenues	-
Expenses	3,323,060
Net loss	3,323,060
Cash flows from operating activities	(3,138,032)
Cash flows from investing activities	(163,420)
Cash flows from financing activities	3,666,667

Notes to Consolidated Financial Statements

as of December 31, 2009 and 2008

4 - JOINT VENTURE (Continued)

The joint venture has entered into lease agreements, expiring on October 31, 2012, which call for the payment of \$462,553 for the rental of premises. The Company's proportionate interest is \$205,579 which represents during the next years \$139,471 in 2010, \$36,059 in 2011, and \$30,049 in 2012.

5 - INCOME TAXES

The Company's effective income tax rate differs from the combined federal and provincial income tax rate in Canada. This difference is due to the following items:

	2009	2008
	\$	\$
Net profit (loss)	<u>1,685,867</u>	<u>(16,280,389)</u>
Income taxes calculated using the combined federal and provincial income tax rate in Canada of 30.90% (30.90% in 2008)	521,000	(5,031,000)
Increase (decrease) in income taxes resulting from the following:		
Unrecognized future income tax assets	1,268,000	3,424,000
Stock-based compensation	21,000	54,000
Interest on convertible debentures and preferred shares	441,000	569,000
Exchange rate variation on convertible debentures and preferred shares	(740,000)	1,016,000
Variation due to income tax rate adjustment	-	439,000
Research and development tax credit	(95,000)	(340,000)
Amortization of financing expenses	(89,000)	(109,000)
Non taxable portion of capital gain	(1,311,000)	-
Non-deductible expenses and other items	(16,000)	(22,000)
Income taxes	<u>-</u>	<u>-</u>

The future income tax assets and liabilities result from the differences between the carrying-amount and the tax basis of the following:

	2009	2008
	\$	\$
Future income tax assets		
Non-capital losses	6,828,000	6,617,000
Research and development expenses	10,663,000	9,762,000
	<u>17,491,000</u>	<u>16,379,000</u>
Future income tax liabilities		
Property, plant and equipment	86,000	404,000
Other assets	287,000	124,000
	<u>373,000</u>	<u>528,000</u>
Valuation allowance	<u>17,118,000</u>	15,851,000
Net future income taxes	<u>(17,118,000)</u>	<u>(15,851,000)</u>
	<u>-</u>	<u>-</u>

Notes to Consolidated Financial Statements

as of December 31, 2009 and 2008

5 - INCOME TAXES (Continued)

The future income tax asset resulting from loss carry-forwards is not recorded in the financial statements. These losses and deductible temporary differences, which are available to reduce income taxes in future years, are as follows:

	<u>Federal</u>	<u>Provincial</u>
	\$	\$
Amount of losses for tax purposes carried forward:		
2026	3,941,000	2,650,000
2027	5,898,000	4,058,000
2028	7,484,000	6,476,000
2029	5,050,000	8,442,000
	<u>22,373,000</u>	<u>21,626,000</u>
Eligible research and development expenses to be deferred over an undetermined period	29,906,000	41,151,000
Amount of temporary variances to be deferred over an undetermined period	1,205,000	1,205,000
	<u>53,484,000</u>	<u>63,982,000</u>

In addition, the Company has investment tax credits amounting to approximately \$104,000, which are available until 2021, \$728,000 until 2023, \$952,000 until 2024, \$1,095,000 until 2025, \$1,110,000 until 2026, \$978,000 until 2027, \$1,088,000 until 2028, and \$970,000 until 2029.

6 - SHORT-TERM INVESTMENTS

	<u>2009</u>	<u>2008</u>
	\$	\$
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	<u>95,196</u>	-
	<u>95,196</u>	<u>3,001,033</u>

7 - ACCOUNTS RECEIVABLE

	<u>2009</u>	<u>2008</u>
	\$	\$
Investment tax credits receivable	2,060,117	2,301,982
Sales taxes receivable	113,942	45,227
Trade accounts receivable	65,862	-
	<u>2,239,921</u>	<u>2,347,209</u>



Notes to Consolidated Financial Statements

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8 - PROPERTY, PLANT AND EQUIPMENT

	2009		
	Cost	Accumulated amortization	Net
	\$	\$	\$
Computer equipment	704,043	475,474	228,569
Furniture and equipment	1,012,865	621,848	391,017
Leasehold improvements	1,493,599	1,491,798	1,801
	<u>3,210,507</u>	<u>2,589,120</u>	<u>621,387</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>

During 2009, as part of the joint venture transaction, the Company transferred \$707,654 of its property, plant and equipment to Neurostream. (see Note 4) Also, in the last quarter of 2009, the Company restructured its Biotronix division, which resulted in the sale of equipment having a net book value of \$162,256 and in an impairment of its property, plant and equipment for an amount of \$135,738. (see Note 14)

9 - INTANGIBLE ASSETS

	2009		
	Cost	Accumulated amortization	Net
	\$	\$	\$
Patents	5,666,350	210,144	5,456,206
Acquired technology	-	-	-
	<u>5,666,350</u>	<u>210,144</u>	<u>5,456,206</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 2009, the Company acquired \$295,527 (\$143,010 in 2008) in patents and took an impairment of \$0 (\$83,106 in 2008). Also, in the last quarter of 2009, following the restructuring of its Biotronix division, the Company recorded an impairment of patents for an amount of \$326,241. (see Note 14)

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

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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%; 5.0% in 2008), 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% (4.75%) and maturing with the receipt of the related investment tax credits receivable. In January 2010, this guaranteed investment certificate has been reinvested and will mature on March 11, 2010.

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 December 31, 2009, the Company does not respect all debt covenants, but has obtained a waiver from its financial institution.

11 - CONVERTIBLE DEBENTURES

The following table illustrates variations in the years:

	Liability component	Equity component
	\$	\$
Balance as of December 31, 2007 (a)	11,721,505	1,551,780
Imputed interest	2,709,313	-
Payment of interest	(1,306,194)	-
Exchange rate loss	3,288,836	-
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 December 31, 2009	<u><u>-</u></u>	<u><u>-</u></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. The liability and the equity components initially represented \$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.

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.

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11 - CONVERTIBLE DEBENTURES (Continued)

- (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.

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.

The liability component of the convertible debentures is the discounted value, at the date of issue, of the cash payments of interest and principal due under the terms of the convertible debentures, discounted at the rate of interest that would apply to a debt security without a conversion option, with similar maturity and risk. The equity component represents the value attributed to the difference between the amount issued and the liability component.

12 - CAPITAL STOCK

On June 17, 2009, by Plan of Arrangement, the Company modified its capital stock by the creation of two classes of preferred shares.

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.
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.

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.

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12 - CAPITAL STOCK (Continued)

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	9,589,249	39,676,206
Shares issued related to interest due on convertible debentures	2,719,644	1,306,194
Balance as of December 31, 2008	<u>12,308,893</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	1,877,139	806,019
Balance as of December 31, 2009	<u>15,529,313</u>	<u>42,391,552</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	-	696,806	-
Exchange rate gain	-	(996,920)	-
Conversion into common shares	<u>(1,877,139)</u>	<u>(598,949)</u>	<u>(207,070)</u>
Balance as of December 31, 2009	<u>21,065,361</u>	<u>6,374,413</u>	<u>2,323,747</u>

The equity component of the Series A preferred shares has been established, at the date of issue, using the Black-Scholes 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 2009, 1,877,139 Series A preferred shares for a redemption amount of US\$ 1,240,673 were converted into common shares. As of December 31, 2009, the redemption amount of the Series A preferred shares was US\$ 13,922,909 or CAN\$ 14,632,977.

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.



Notes to Consolidated Financial Statements

as of December 31, 2009 and 2008

12 - CAPITAL STOCK (Continued)

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.

There were no changes to the outstanding warrants during the years 2009 and 2008.

As of December 31, 2009, the following warrants were outstanding:

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	0.21	4.50
\$11.66 to \$16.00	706,969	0.25	16.00
<u>\$ 4.50 to \$16.00</u>	<u>2,596,494</u>	<u>0.22</u>	<u>7.63</u>

13 - 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% (3.71% 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 (\$0.70 in 2008).

The Company's stock option plan at the end of the years as well as the changes during the years 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	206,500	1.20
Forfeited	(150,000)	4.60
Outstanding, as of December 31, 2008	687,300	4.04
Granted	50,000	0.25
Forfeited	(153,250)	3.52
Outstanding, as of December 31, 2009	584,050	3.85
Exercisable, as of December 31, 2009 (432,239 at \$5.50 in 2008)	570,659	3.92



Notes to Consolidated Financial Statements

as of December 31, 2009 and 2008

13 - STOCK-BASED COMPENSATION (Continued)

In 2009, the Company added \$203,118 (\$173,961 in 2008) to the contributed surplus for which \$134,398 (\$0 in 2008) has been recorded as transaction costs against the gain on assets and liabilities transfer and \$68,720 (\$173,961 in 2008) as stock-based compensation.

As of December 31, 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	4.21	0.25
\$ 0.37 to \$ 0.54	6,500	8.83	0.40
\$ 0.81 to \$ 1.18	15,000	8.50	0.95
\$ 1.19 to \$ 1.73	285,500	8.08	1.44
\$ 2.53 to \$ 3.68	80,000	7.33	3.20
\$ 3.69 to \$ 5.36	46,800	2.73	5.30
\$ 5.37 to \$ 7.80	10,000	1.88	6.30
\$ 7.81 to \$11.35	1,000	3.33	8.30
\$11.36 to \$16.50	89,250	3.41	13.83
<u>\$ 0.25 to \$16.50</u>	<u>584,050</u>	<u>6.41</u>	<u>3.85</u>

As of December 31, 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	3,453	0.40
\$ 0.81 to \$ 1.18	9,375	0.95
\$ 1.19 to \$ 1.73	280,781	1.44
\$ 2.53 to \$ 3.68	80,000	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	1,000	8.30
\$11.36 to \$16.50	89,250	13.83
<u>\$ 0.25 to \$16.50</u>	<u>570,659</u>	<u>3.92</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.



Notes to Consolidated Financial Statements

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14 - RESTRUCTURING

During the last quarter of 2009, the Company entered into a new license agreement to replace the previous license and collaboration agreements with our partner Ossur and sold certain Biotronix assets to Ossur for a total consideration of \$525,200 (US\$ 500,000). Following the completion of the Power Knee Second Generation product and Ossur's decision not to undertake any additional development project under the collaboration agreement with Victhom, these transactions allowed the Company to proceed with the restructuring of its Biotronix division and transfer the product support and development activities to Ossur in order to facilitate the successful commercial launch of the second generation Power Knee.

With the restructuring of its Biotronix division activities, the Company recorded restructuring charges of \$245,274 which are summarized in the table below:

	Sale of fixed assets	Impairment and charges	Total
	\$	\$	\$
Gross proceeds from fixed assets sold	(525,200)	-	(525,200)
Fixed assets	162,256	135,738	297,994
Intangible assets	-	326,241	326,241
Prepaid expenses	-	5,127	5,127
Reduction of task force	-	111,301	111,301
Professional fees	21,455	8,356	29,811
	<u>(341,489)</u>	<u>586,763</u>	<u>245,274</u>

The restructuring is expected to be completed by the end of the second quarter of 2010 and the Company does not anticipate any additional charges relating to this restructuring.

15 - 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. These transactions were accounted for at the exchange amount, which is the consideration established and agreed upon the related parties. As of December 31, 2009 and 2008, there is no amount due to related party entities.

16 - SUPPLEMENTARY INFORMATION

	<u>2009</u>	<u>2008</u>
	\$	\$
Supplementary cash flow information:		
Interest paid	28,667	24,456
Non-cash financing activities:		
Issuance of preferred shares pursuant to plan of arrangement	10,000,000	-
Transaction costs related to issuance of preferred shares	(162,108)	-
Stock-based compensation related to:		
assets and liabilities transfer	(100,799)	-
issuance of preferred shares	(33,599)	-
Common shares issued related to:		
interest due on convertible debentures	603,133	1,306,194
conversion of preferred shares	806,019	-
Non-cash impact of joint venture transaction:		
Changes in working capital items	97,963	-
Capital contributions receivable	(3,666,667)	-
Property, plant and equipment	(381,888)	-
Intangible assets	(2,882,760)	-



Notes to Consolidated Financial Statements

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17 - INFORMATION INCLUDED IN THE CONSOLIDATED STATEMENT OF OPERATIONS

	2009	2008
	\$	\$
Research and development expenses (1)	8,154,501	9,629,647
Amortization of property, plant and equipment	802,587	730,624
Amortization of intangible assets	74,777	62,767
Stock-based compensation	68,720	173,961
<u>Financial expenses</u>		
Interest on demand loan and convertible debentures	1,358,924	2,720,904
Interest on preferred shares	696,807	-
	<u>2,055,731</u>	<u>2,720,904</u>
Interest income on held-for-trading assets	(29,570)	(286,228)
Exchange loss on operations	(11,626)	32,540
Exchange loss (gain) on the liability component of convertible debentures	(1,397,580)	3,288,836
Exchange gain on the liability component of preferred shares	(996,920)	-
Other financial expenses	46,760	35,833
	<u>(333,205)</u>	<u>5,791,885</u>

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

18 - 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 contribution receivable, demand loan, accounts payable and accrued liabilities, convertible debentures and its preferred shares.

Fair Value

As of December 31, 2009 and 2008, the fair value of cash and cash equivalents, short-term investments, accounts receivable, capital contribution 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

Financial assets that potentially subject the Company to credit risk consist of cash and cash equivalents, short-term investments, trade accounts receivable and capital contribution receivable. As of December 31, 2009, the Company has cash for an amount of \$1,110,212 (\$221,495 in 2008) with a reputable financial institution and \$0 (\$896,684 in 2008) in money market securities. Management assesses the Company's credit risk to be low.

Liquidity Risk

Liquidity risk is the risk that the Company is not able to meet its financial obligations as they fall due or can do so only at excessive cost. The Company's growth is financed on an annual basis through a combination of cash flows from operations, borrowings under the existing credit facilities and the issuance of equity. One of Management's primary goals is to maintain an optimal level of liquidity through the active management of assets and liabilities as well as cash flows.



Notes to Consolidated Financial Statements

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18 - FINANCIAL INSTRUMENTS (Continued)

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 December 31, 2009, the Company has assets and liabilities in foreign currency including cash and cash equivalents in the amount of \$761,083 (\$123,534 in 2008), accounts receivable in the amount of \$65,898 (\$0 in 2008), and accounts payable in the amount of \$301,045 (\$537,027 in 2008).

The Company is exposed to a currency risk on the repayment of the principal amount of the preferred shares which shall be made at a fixed exchange rate of CAN\$ 1.2104 for each US\$ 1.00. (see Note 12) An exchange rate variation of 5% will generate a gain or (loss) of \$696,145.

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.

Summary of financial assets and liabilities per category

		2009	2008
		\$	\$
Current assets			
Cash and cash equivalents	Held-for-trading	1,110,212	1,118,179
Short-term investments	Held-for-trading	95,196	3,001,033
Accounts receivable	Loans and receivables	65,862	-
Capital contribution receivable	Loans and receivables	1,222,222	-
Current liabilities			
Demand loan	Other financial liabilities	950,000	750,000
Accounts payable and accrued liabilities	Other financial liabilities	1,500,038	2,110,708
Long-term liabilities			
Convertible debentures	Other financial liabilities	-	16,413,460
Preferred shares	Other financial liabilities	6,374,413	-

19 - 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 2) 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, preferred shares, tax credits receivable, cash and short-term investments, representing \$4,284,605 in 2009 and \$10,982,752 in 2008. 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.



Notes to Consolidated Financial Statements

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19 - CAPITAL STRUCTURE FINANCIAL POLICY (Continued)

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 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 Victhom Human Bionics Inc. non-consolidated financial statements. During the year 2009, the Company was not 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, but the Company has obtained a waiver from its financial institution.

20 - 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.

During 2009, the Company generated revenues from non-refundable advance royalties for an amount of \$1,393,591 (\$2,185,618 in 2008), from support activities for an amount of \$16,398 (\$51,302 in 2008), and from other sources for an amount of \$160,487 (\$31,426 in 2008). Revenues are mostly derived from a European medical device company located in Iceland.

The Company has used the same accounting policies, as described in Note 2, for both of its operating segments.

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

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

			2009
	Biotronix	Neurobionix	Total
	\$	\$	\$
Revenues	1,570,476	-	1,570,476
Expenses			
Research and development	1,705,645	6,705,472	8,411,117
Tax credits and grants	(298,302)	(498,437)	(796,739)
	<u>1,407,343</u>	<u>6,207,035</u>	<u>7,614,378</u>
			2008
	Biotronix	Neurobionix	Total
	\$	\$	\$
Revenues	2,276,362	10,106	2,286,468
Expenses			
Research and development	2,283,053	7,817,186	10,100,239
Tax credits and grants	(398,426)	(700,356)	(1,098,782)
	<u>1,884,627</u>	<u>7,116,830</u>	<u>9,001,457</u>

21 - COMPARATIVE FIGURES

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