



**Interim Consolidated
Financial Statements
June 30, 2010 and 2009**

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Consolidated Statements of Operations and Comprehensive Income

Periods ended on June 30
(unaudited)

	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
	(3 months)	(3 months)	(6 months)	(6 months)
	\$	\$	\$	\$
Revenues	<u>27,901</u>	<u>495,736</u>	<u>30,384</u>	<u>1,177,648</u>
Expenses				
Research and development	1,241,150	2,570,920	2,530,047	5,440,152
Tax credits and grants	(1,126,214)	(310,909)	(1,183,370)	(659,909)
General and administrative	746,144	487,239	1,088,891	1,112,297
Financial	636,150	(1,746,534)	731,387	(346,967)
	<u>1,497,230</u>	<u>1,000,716</u>	<u>3,166,955</u>	<u>5,545,573</u>
Gain on extinguishment of convertible debentures related to liability component (Note 4)	-	(8,278,369)	-	(8,278,369)
Realized gain on assets and liabilities transfer (Note 4)	-	(1,723,239)	-	(1,612,316)
	<u>1,497,230</u>	<u>(9,000,892)</u>	<u>3,166,955</u>	<u>(4,345,112)</u>
Net profit (loss) and comprehensive income	<u>(1,469,329)</u>	<u>9,496,628</u>	<u>(3,136,571)</u>	<u>5,522,760</u>
Weighted average number of common shares outstanding	<u>15,529,313</u>	<u>12,486,028</u>	<u>15,529,313</u>	<u>12,397,950</u>
Net profit (loss) per share				
Basic	<u>(0.095)</u>	<u>0.761</u>	<u>(0.202)</u>	<u>0.445</u>
Diluted	<u>(0.095)</u>	<u>0.759</u>	<u>(0.202)</u>	<u>0.445</u>

The accompanying notes are an integral part of the interim consolidated financial statements and Note 12 provides additional information on the consolidated statements of operations.



Consolidated Statements of Contributed Surplus and Deficit

Periods ended on June 30
(unaudited)

	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
	(3 months)	(3 months)	(6 months)	(6 months)
	\$	\$	\$	\$
CONTRIBUTED SURPLUS				
Balance, beginning of period	10,262,380	10,090,943	10,261,576	10,058,458
Stock-based compensation related to stock options vested (Note 10)	-	164,996	804	197,481
Balance, end of period	<u>10,262,380</u>	<u>10,255,939</u>	<u>10,262,380</u>	<u>10,255,939</u>
DEFICIT				
Balance, beginning of period	(55,563,597)	(58,646,812)	(53,896,355)	(54,603,185)
Reclassification of transaction costs to unrealized gain on assets and liabilities transfer	-	69,759	-	-
Adjustment related to the extinguishment of convertible debentures (Note 4)	-	(979,037)	-	(979,037)
Net profit (loss)	<u>(1,469,329)</u>	<u>9,496,628</u>	<u>(3,136,571)</u>	<u>5,522,760</u>
Balance, end of period	<u>(57,032,926)</u>	<u>(50,059,462)</u>	<u>(57,032,926)</u>	<u>(50,059,462)</u>

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

Consolidated Statements of Cash Flows

Periods ended on June 30
(unaudited)

	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
	(3 months)	(3 months)	(6 months)	(6 months)
	\$	\$	\$	\$
OPERATING ACTIVITIES				
Net profit (loss)	(1,469,329)	9,496,628	(3,136,571)	5,522,760
Cash items:				
Transaction costs related to assets and liabilities transfer	-	(474,452)	-	(655,135)
Non-cash items:				
Stock-based compensation	-	30,598	804	63,083
Interest on convertible debentures	-	637,239	-	1,334,805
Interest on preferred shares	361,696	44,292	703,504	44,292
Exchange rate variation on convertible debentures	-	(2,115,122)	-	(1,397,580)
Exchange rate variation on preferred shares	274,614	(294,279)	(1,969)	(294,279)
Gain on extinguishment of convertible debentures related to liability component	-	(8,278,369)	-	(8,278,369)
Realized gain on assets and liabilities transfer	-	(1,723,239)	-	(1,612,316)
Amortization of property, plant and equipment	48,915	240,431	90,121	491,019
Amortization of intangible assets	22,375	17,793	42,614	35,585
Changes in working capital items	410,786	1,724,290	128,776	4,060,795
Cash flows from operating activities	<u>(350,943)</u>	<u>(694,190)</u>	<u>(2,172,721)</u>	<u>(685,340)</u>
INVESTING ACTIVITIES				
Short-term investments	95,000	-	95,000	-
Property, plant and equipment	(20,715)	(15,411)	(101,843)	(19,917)
Intangible assets	(6,141)	(71,294)	(8,463)	(170,589)
Cash flows from investing activities	<u>68,144</u>	<u>(86,705)</u>	<u>(15,306)</u>	<u>(190,506)</u>
FINANCING ACTIVITIES				
Capital contributions	-	1,500,000	1,222,222	1,500,000
Note payable	977,778	-	977,778	-
Demand loan	-	950,000	-	950,000
Repayment of demand loan	(950,000)	-	(950,000)	(765,000)
Cash flows from financing activities	<u>27,778</u>	<u>2,450,000</u>	<u>1,250,000</u>	<u>1,685,000</u>
Net increase (decrease) in cash	(255,021)	1,669,105	(938,027)	809,154
Cash, beginning of period	<u>427,206</u>	<u>258,228</u>	<u>1,110,212</u>	<u>1,118,179</u>
Cash, end of period	<u>172,185</u>	<u>1,927,333</u>	<u>172,185</u>	<u>1,927,333</u>

Supplementary information (Note 11)

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



Consolidated Balance Sheets

As of June 30, 2010 and December 31, 2009

	(unaudited) 2010	2009
	\$	\$
ASSETS		
Current assets		
Cash	172,185	1,110,212
Short-term investments (Note 6)	-	95,196
Accounts receivable (Note 7)	1,448,397	2,239,921
Prepaid expenses	40,514	114,553
Capital contribution receivable	-	1,222,222
	<u>1,661,096</u>	<u>4,782,104</u>
Property, plant and equipment	633,109	621,387
Intangible assets	5,422,055	5,456,206
	<u><u>7,716,260</u></u>	<u><u>10,859,697</u></u>
LIABILITIES		
Current liabilities		
Demand loan (Note 8)	-	950,000
Accounts payable and accrued liabilities	763,055	1,500,038
Note payable (Note 5)	977,778	-
	<u>1,740,833</u>	<u>2,450,038</u>
Liability component of preferred shares (Note 9)	7,075,948	6,374,413
Unrealized gain on assets and liabilities transfer (Note 4)	954,726	954,726
	<u><u>9,771,507</u></u>	<u><u>9,779,177</u></u>
SHAREHOLDERS' EQUITY (Deficiency)		
Equity component of preferred shares (Note 9)	2,323,747	2,323,747
Capital stock (Note 9)	42,391,552	42,391,552
Contributed surplus	10,262,380	10,261,576
Deficit	(57,032,926)	(53,896,355)
	<u>(2,055,247)</u>	<u>1,080,520</u>
	<u><u>7,716,260</u></u>	<u><u>10,859,697</u></u>

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

On behalf of the Board,

/s/ Daniel Johnson
Chairman

/s/ Nitin Kaushal
Director



Notes to Consolidated Financial Statements

as of June 30, 2010 and December 31, 2009

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), whose objective is to bring to market the Neurostep® System, and to develop neuromodulation products in other indications such as sleep apnea.

2 - GOING CONCERN

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.

The financial situations of the consolidated entities are as follows:

Victhom Human Bionics Inc.

Management believes that, with its financial situation, the parent company Victhom will have sufficient liquidity to support its cash flow requirements for at least the next twelve months.

Neurostream Technologies G.P.

Management believes that its joint venture Neurostream will require additional financing to fund its continuing operations and development, and conduct clinical trials. The additional capital contributions from its partner Otto Bock pursuant to the Neurostream General Partnership agreement dated April 29, 2009 are conditional to the Partnership achieving certain operational milestones for specific dates. As of June 30, 2010, even though Neurostream had not achieved a milestone that was due on May 1, 2010, Otto Bock has continued funding Neurostream's operations on a voluntary basis.

Management believes that, considering the materiality of the Neurobionix activities in its financial statements and the fact that Otto Bock is funding the Neurobionix activities on a voluntary basis until the milestone is met, there is significant uncertainty about the Company's ability to continue as a going concern. The ability of the Company to continue as a going concern is dependent upon its joint venture Neurostream ability to 1) making good progress towards completing the milestone, 2) continuing its operations with the same infrastructure based on a revised project plan, and 3) assuring Otto Bock's continuous funding of the Neurobionix activities. The outcome of these matters is dependent on a number of factors that are not entirely under the Company's control. As a result, there is uncertainty as to whether the Company's joint venture will have the ability to continue as going concern.

However, these unaudited interim consolidated financial statements have been prepared in accordance with Canadian GAAP using the going-concern assumption, which assumes that the Company will be able to realize assets and discharge liabilities in the normal course of operations for the foreseeable future. Consequently, these unaudited interim consolidated financial statements do not reflect any adjustments that might be necessary to the carrying-amount of reported assets, liabilities, revenues and expenses, and the balance sheet classification used should Neurostream not be successful in achieving the partnership milestones and in obtaining its required financing from its joint venture partner. Such adjustments could be material and could have a significant adverse effect on the Company's unaudited interim consolidated financial statements.

3 - 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, 2009. 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, 2009. The results of operations for the interim periods presented do not necessarily reflect results for the full year.

Notes to Consolidated Financial Statements

as of June 30, 2010 and December 31, 2009

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.

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.

As a result of the conversion, the Company recorded a gain of \$8,278,369, which resulted from the difference between the carrying-amount of the liability component 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.

- 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.

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. In 2009, this investment has generated a gain on assets and liabilities transfer for which \$1,612,316 was recorded as a realized gain into the operating results and \$954,726 as a unrealized gain into the balance sheet.

5 - JOINT VENTURE

As of June 30, 2010, the Company's proportionate interest relating to the joint venture is as follow:

	2010	2009
	\$	\$
<u>Balance sheets</u>		
Current assets (1)	143,865	1,698,034
Long-term assets	5,293,849	5,237,171
Current liabilities	458,148	258,265
Note payable	977,778	-

- (1) The 2009 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.



Notes to Consolidated Financial Statements

as of June 30, 2010 and December 31, 2009

5 - JOINT VENTURE (Continued)

	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
	(3 months)	(2 months)	(6 months)	(2 months)
	\$	\$	\$	\$
<u>Statements of operations and cash flows</u>				
Revenues	111	-	111	-
Expenses	1,351,722	747,836	2,675,263	747,836
Net loss	1,351,611	747,836	2,675,152	747,836
Cash flows from operating activities	(1,109,076)	(833,378)	(2,389,549)	(833,378)
Cash flows from investing activities	(27,944)	(683,649)	(118,451)	(683,649)
Cash flows from financing activities	977,778	1,888,889	2,200,000	1,888,889

Note payable to a partner

Pursuant to the General Partnership Agreement dated April 29, 2009, Otto Bock was required to make an Additional Contribution on May 1, 2010 upon completion a specific milestone. On April 16, 2010, Otto Bock offered to grant a loan to Neurostream until such milestone is achieved. Upon achievement of the milestone the loan amount shall be converted into a capital contribution and therefore become an integral part of the Additional Contribution to be made by Otto Bock. The loan is bearing interest at 5.5% payable on a quarterly basis. As of June 30, 2010, the loan amounted to \$2,200,000, for which the Company's proportionate interest is \$977,778.

Commitments

The joint venture has entered into lease agreements, expiring on September 30, 2013, at the latest. On June 30, 2010, the agreements call for the payment of \$1,408,645 for the rental of premises. The Company's proportionate interest is \$626,064, which represents during the next years \$132,679 in 2010, \$191,588 in 2011, \$185,501 in 2012, and \$116,296 in 2013.

6 - SHORT-TERM INVESTMENTS

	<u>2010</u>	<u>2009</u>
	\$	\$
Guaranteed investment certificate, bearing interest of 0.37% annually, provided as security on the demand loan, matured in March 2010	-	95,196

7 - ACCOUNTS RECEIVABLE

	<u>2010</u>	<u>2009</u>
	\$	\$
Investment tax credits receivable (1)	1,333,928	2,060,117
Sales taxes receivable	114,469	113,942
Trade accounts receivable	-	65,862
	<u>1,448,397</u>	<u>2,239,921</u>

(1) In April 2010, the Company received \$1,231,805 for the 2008 investment tax credits receivable.

8 - CREDIT FACILITIES

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 was 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.



Notes to Consolidated Financial Statements

as of June 30, 2010 and December 31, 2009

8 - CREDIT FACILITIES (Continued)

As per the credit facility requirements, the Company had invested 10% of the demand loan in a guaranteed investment certificate, matured in May 2010. The demand loan was bearing interest at prime rate plus 2.5% (4.75%). In April 2010, the demand loan of \$950,000 was reimbursed with the receipt of the 2008 investment tax credit receivable.

9 - 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.

Common shares issued and fully paid

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

	Number	Amount \$
Balance as of December 31, 2008	12,308,893	40,982,400
Shares issued related to interest due on convertible debentures	1,343,281	603,133
Balance as of June 30, 2009	<u>13,652,174</u>	<u>41,585,533</u>
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>
Balance as of June 30, 2010	<u>15,529,313</u>	<u>42,391,552</u>

Notes to Consolidated Financial Statements

as of June 30, 2010 and December 31, 2009

9 - CAPITAL STOCK (Continued)

Series A preferred shares issued and fully paid

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

	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	-	44,292	-
Exchange rate gain	-	(294,279)	-
Balance as of June 30, 2009	<u>22,942,500</u>	<u>7,023,489</u>	<u>2,530,817</u>
Imputed interest	-	652,514	-
Exchange rate gain	-	(702,641)	-
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>
Imputed interest	-	703,504	-
Exchange rate gain	-	(1,969)	-
Balance as of June 30, 2010	<u>21,065,361</u>	<u>7,075,948</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 June 30, 2010, the redemption amount of the Series A preferred shares was US\$ 13,922,909 or CAN\$ 14,822,329.

Warrants

As of June 30, 2010, there were no outstanding warrants. All warrants expired in March 2010.



Notes to Consolidated Financial Statements

as of June 30, 2010 and December 31, 2009

10 - 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.

No stock options were granted during the first six months of 2010. For the same period 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%, risk-free interest rate of 1.71%, no expected dividends and expected life of 4 years. The weighted average fair value of the stock options granted during 2009 is \$0.01.

The Company's stock option plan at the end of the periods as well as the changes during the periods are summarized in the table below:

	Number	Weighted average exercise price
		\$
Outstanding, as of December 31, 2008	687,300	4.04
Granted	50,000	0.25
Canceled	(50,000)	1.20
Outstanding, as of June 30, 2009	<u>687,300</u>	<u>3.97</u>
Forfeited	(103,250)	4.65
Outstanding, as of December 31, 2009	<u>584,050</u>	<u>3.85</u>
Forfeited	(20,938)	10.45
Outstanding, as of June 30, 2010	<u>563,112</u>	<u>3.61</u>
Exercisable, as of June 30, 2010	(665,909 at \$4.06 in 2009)	<u>3.64</u>

For the first six months of 2010, the Company recorded \$804 (\$63,083 in 2009) as stock-based compensation and \$0 (\$134,398 in 2009) as transaction costs against the gain on assets and liabilities transfer.

As of June 30, 2010, the following stock options were outstanding:

Range of exercise prices	Number of outstanding options	Weighted average remaining contractual life (in years)	Weighted average exercise price
			\$
\$ 0.25 to \$ 0.36	50,000	0.17	0.25
\$ 0.37 to \$ 0.54	6,500	8.33	0.40
\$ 0.81 to \$ 1.18	15,000	8.00	0.95
\$ 1.19 to \$ 1.73	282,562	2.08	1.44
\$ 2.53 to \$ 3.68	80,000	2.67	3.20
\$ 3.69 to \$ 5.36	45,800	2.17	5.30
\$ 5.37 to \$ 7.80	10,000	1.38	6.30
\$11.36 to \$16.50	73,250	3.39	14.12
<u>\$ 0.25 to \$16.50</u>	<u>563,112</u>	<u>2.39</u>	<u>3.61</u>

Notes to Consolidated Financial Statements

as of June 30, 2010 and December 31, 2009

10 - STOCK-BASED COMPENSATION (Continued)

As of June 30, 2010, the following stock options were exercisable:

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	4,265	0.40
\$ 0.81 to \$ 1.18	11,250	0.95
\$ 1.19 to \$ 1.73	281,407	1.44
\$ 2.53 to \$ 3.68	80,000	3.20
\$ 3.69 to \$ 5.36	45,800	5.30
\$ 5.37 to \$ 7.80	10,000	6.30
\$11.36 to \$16.50	73,250	14.12
<u>\$ 0.25 to \$16.50</u>	<u>555,972</u>	<u>3.64</u>

11 - SUPPLEMENTARY INFORMATION

	<u>2010</u> (3 months) \$	<u>2009</u> (3 months) \$	<u>2010</u> (6 months) \$	<u>2009</u> (6 months) \$
Supplementary cash flow information:				
Interest paid	11,344	2,222	22,478	7,285
Non-cash financing activities:				
Issuance of preferred shares pursuant to plan of arrangement	-	10,000,000	-	10,000,000
Transaction costs related to issuance of preferred shares	-	(61,309)	-	(61,309)
Stock-based compensation related to:				
assets and liabilities transfer	-	(100,799)	-	(100,799)
issuance of preferred shares	-	(33,599)	-	(33,599)
Common shares issued related to:				
interest due on convertible debentures	-	603,133	-	603,133
Non-cash impact of joint venture transaction:				
Changes in working capital items	-	(1,208,840)	-	(1,208,840)
Capital contributions receivable	-	(3,666,667)	-	(3,666,667)
Property, plant and equipment	-	(381,888)	-	(381,888)
Intangible assets	-	(2,773,501)	-	(2,773,501)

Notes to Consolidated Financial Statements

as of June 30, 2010 and December 31, 2009

12 - INFORMATION INCLUDED IN THE CONSOLIDATED STATEMENT OF OPERATIONS

	2010 (3 months) \$	2009 (3 months) \$	2010 (6 months) \$	2009 (6 months) \$
Research and development expenses (1)	1,192,261	2,477,483	2,436,353	2,755,310
Investment tax credits (2)	(1,126,214)	(310,909)	(1,183,370)	(659,909)
Amortization of property, plant and equipment	48,915	239,662	90,121	250,589
Amortization of intangible assets	22,375	17,793	42,614	17,792
Stock-based compensation	-	30,597	804	32,485
Financial expenses				
Interest on demand loan and convertible debentures	11,344	638,802	22,100	1,338,343
Interest on preferred shares	361,696	44,292	703,504	44,292
	373,040	683,094	725,604	1,382,635
Interest income on held-for-trading assets	(23)	(11,786)	(180)	(27,704)
Exchange loss (gain) on operations	7,538	(43,571)	25,640	(50,242)
Exchange loss (gain) on the liability component of:				
convertible debentures	-	(2,115,122)	-	(1,397,580)
preferred shares	274,614	(294,279)	(1,969)	(294,279)
Other financial expenses	(19,019)	35,130	(17,708)	40,203
	636,150	(1,746,534)	731,387	(346,967)

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

(2) In May 2010, the Company received \$716,096 for its 2006 and 2007 amended investment tax credits filed. Based on the provincial government decision, the Company decided to file its 2008 amended investment tax credit and to adjust its 2008 and 2009 investment tax credits receivable accordingly. Therefore, the Company increased its investment tax credits by \$160,000 and \$300,000 respectively.

13 - 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, short-term investments, accounts receivable, capital contribution receivable, demand loan, accounts payable and accrued liabilities, note payable and its preferred shares.

Fair Value

As of June 30, 2010 and December 31, 2009, the fair value of cash, short-term investments, accounts receivable, capital contribution receivable, demand loan, accounts payable and accrued liabilities, and note payable approximates their carrying-amount given that they will mature shortly. The fair value of the preferred shares approximates the carrying-amount.

Credit Risk

Financial assets that potentially subject the Company to credit risk consist of cash, short-term investments, trade accounts receivable and capital contribution receivable. As of June 30, 2010, the Company has cash for an amount of \$172,185 (\$1,110,212 in 2009) with a reputable financial institution. Management assesses the Company's credit risk to be low.

Notes to Consolidated Financial Statements

as of June 30, 2010 and December 31, 2009

13 - FINANCIAL INSTRUMENTS (Continued)

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.

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 9)

Exchange Risk

As of June 30, 2010, the Company has assets and liabilities in foreign currency including cash in the amount of \$72,865 (\$393,290 in 2009), and accounts payable in the amount of \$192,912 (\$231,117 in 2009).

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 9) 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

		2010	2009
		\$	\$
Current assets			
Cash	Held-for-trading	172,185	1,110,212
Short-term investments	Held-for-trading	-	95,196
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
Accounts payable and accrued liabilities	Other financial liabilities	763,055	1,500,038
Note payable	Other financial liabilities	977,778	-
Long-term liabilities			
Preferred shares	Other financial liabilities	7,075,948	6,374,413

14 - CAPITAL STRUCTURE FINANCIAL POLICY

The Company's objectives when managing capital are to: 1) safeguard the Company's ability to pursue the development of its medical device products; 2) invest cash to earn the highest possible amount of interest income; and 3) maintain a flexible capital structure which optimizes the cost of capital at acceptable risk.

In the management of capital, the Company includes shareholders' equity, long-term debt, preferred shares, investment tax credits receivable, cash and short-term investments, representing \$3,514,588 as of June 30, 2010 and \$4,284,605 as of December 31, 2009. 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.



Notes to Consolidated Financial Statements

as of June 30, 2010 and December 31, 2009

14 - CAPITAL STRUCTURE FINANCIAL POLICY (Continued)

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 regards to the expected timing of expenditures from continuing operations.

The Company does not have externally imposed capital requirements.

15 - 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 the first six months of 2010, the Company generated revenues from royalties on its Power Knee II for an amount of \$27,790 (\$0 in 2009), from non-refundable advance royalties for an amount of \$0 (\$1,161,250 in 2009), from support activities for an amount of \$0 (\$16,398 in 2009), and from other sources for an amount of \$2,594 (\$0 in 2009). Revenues were mostly derived from a European medical device company located in Iceland.

The Company has used the same accounting policies for both of its operating segments.

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>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
	(3 months)	(3 months)	(6 months)	(6 months)
	\$	\$	\$	\$
BIOTRONIX				
Revenues	<u>27,790</u>	495,736	<u>30,273</u>	1,177,648
Expenses				
Research and development	22,375	704,877	91,461	1,247,780
Tax credits and grants	<u>(309,077)</u>	(179,699)	<u>(309,077)</u>	(271,210)
	<u>(286,702)</u>	<u>525,178</u>	<u>(217,616)</u>	<u>976,570</u>
NEUROBIONIX				
Revenues	<u>111</u>	-	<u>111</u>	-
Expenses				
Research and development	1,218,775	1,866,043	2,438,586	4,192,372
Tax credits and grants	<u>(817,137)</u>	(131,210)	<u>(874,293)</u>	(388,699)
	<u>401,638</u>	<u>1,734,833</u>	<u>1,564,293</u>	<u>3,803,673</u>

16 - SUBSEQUENT EVENTS

In July 2010, the Company obtained a credit facility for a demand loan totaling \$472,000 with Investissement Québec. The demand loan is secured by: i) the 2009 investment tax credits receivable and ii) a first call of \$566,400 on the universality of the Company's property. The demand loan is bearing interest at prime rate plus 3.5% (6.0%), maturing with the receipt of the related investment tax credits receivable. As per the credit facility requirements, the Company will invest 10% of the demand loan in a guaranteed investment certificate, which will mature in July 2011.

17 - COMPARATIVE FIGURES

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