Condensed interim consolidated financial statements

(unaudited)

As of September 30, 2011 and for the nine-month periods ended on September 30, 2011 and 2010

Important information

The following condensed consolidated financial statements have been prepared on an IFRS basis and have not been reviewed by an auditor.

Victhom Human Bionics

As of September 30, 2011 and for the nine-month periods ended on September 30, 2011 and 2010
(unaudited)

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Victhom Human Bionics

Consolidated Statements of Financial Position
(unaudited)

	Note	September 30 2011	December 31 2010 (Restated Note 2)	January 1 2010 (Restated Note 2)
		$	$	$
ASSETS				
Current assets				
Cash and cash equivalents		**2,523,574**	1,498,212	1,110,212
Short-term investments	5	**-**	47,323	95,196
Accounts receivable	6	**557,137**	685,179	2,239,921
Prepaid expenses		**23,782**	55,139	114,553
Capital contribution receivable		**-**	-	1,222,222
Amount receivable from Otto Bock	8	**5,000,000**	-	-
		8,104,493	2,285,853	4,782,104
Non-current assets				
Property, plant and equipment		**11,117**	297,916	361,034
Intangible assets	7	**452,164**	4,449,049	4,382,195
		463,281	4,746,965	4,743,229
		8,567,774	7,032,818	9,525,333
LIABILITIES				
Current liabilities				
Demand loan	9	**-**	472,000	950,000
Accounts payable and accrued liabilities		**325,284**	799,788	1,500,038
Note payable		**-**	3,375,963	-
		325,284	4,647,751	2,450,038
Non-current liabilities				
Liability component of preferred shares	10	**5,168,826**	6,248,540	6,420,908
Unrealized gain on assets and liabilities transfer		**-**	958,247	958,247
		5,494,110	11,854,538	9,829,193
SHAREHOLDERS' EQUITY (DEFICIENCY)				
Equity component of preferred shares	10	**1,363,934**	1,953,813	2,278,270
Capital stock	10	**44,403,485**	43,950,011	42,400,612
Reserve - stock options		**3,096,857**	3,094,176	3,091,190
Reserve - warrants		**7,078,882**	7,078,882	7,078,882
Reserve - convertible debentures		**90,748**	90,748	90,748
Deficit		**(52,960,242)**	(60,989,350)	(55,243,562)
		3,073,664	(4,821,720)	(303,860)
		8,567,774	7,032,818	9,525,333

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

Contingency (Note 18)

On behalf of the Board,

/s/ Daniel Johnson
Chairman

/s/ Nitin Kaushal
Director

Victhom Human Bionics

Consolidated Statements of Operations and Comprehensive Income
Periods ended on September 30
(unaudited)

	Note	2011 (3 months)	2010 (3 months)	2011 (9 months) (Restated - Note 2)	2010 (9 months)
		$	$	$	$
Revenues	16	**19,673**	10,914	**70,853**	41,187
Expenses					
Research and development		**-**	-	**-**	53,514
Tax credits		**139,525**	(128,771)	**(60,310)**	(1,312,141)
General and administrative		**244,808**	188,908	**689,734**	1,031,199
Financial expenses	13	**(9,204)**	22,729	**(9,662)**	30,730
Amortization of property, plant and equipment		**1,007**	527	**2,613**	19,987
Amortization of intangible assets		**22,260**	19,745	**66,060**	65,964
Gain on disposal of:					
property, plant and equipment		**-**	(42,056)	**-**	(42,056)
intangible assets	7	**-**	(1,507)	**-**	(1,507)
Interest on preferred shares	10	**323,327**	379,807	**1,046,204**	1,082,152
Exchange (gain) loss on the liability component of the preferred shares	10	**884,325**	(277,082)	**445,748**	(276,268)
		1,606,048	162,300	**2,180,387**	651,574
Net income (loss) from continuing operations		**(1,586,375)**	(151,386)	**(2,109,534)**	(610,387)
Discontinued operations					
Net income (loss) for the period from discontinued operations, net of tax	8	**-**	(1,159,407)	**(968,901)**	(3,847,718)
Gain on disposal of interest in joint venture, net of tax	8	**-**	-	**11,362,930**	-
Net income (loss) and comprehensive income		**(1,586,375)**	(1,310,793)	**8,284,495**	(4,458,105)
Weighted average number of common shares outstanding		**18,622,153**	15,684,204	**18,560,600**	15,581,511
Net income (loss) and comprehensive income per share					
Basic		**(0.085)**	(0.084)	**0.446**	(0.286)
Diluted	17	**(0.085)**	(0.084)	**0.446**	(0.286)
Net income (loss) per share from continuing operations					
Basic		**(0.085)**	(0.010)	**(0.114)**	(0.039)
Diluted	17	**(0.085)**	(0.010)	**(0.114)**	(0.039)

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

Victhom Human Bionics

Consolidated Statements of Changes in Equity
(unaudited)

	Note	Common shares	Capital stock	Equity component of preferred shares	Reserve - Stock options	Reserve - Warrants	Reserve - Convertible debentures	Deficit (Restated Note 2)	Total
		Number	$	$	$	$	$	$	$
Balance as of January 1, 2010, as previously reported		15,529,313	42,400,612	2,278,270	3,091,190	7,078,882	90,748	(54,142,106)	**797,596**
Correction of an error in prior financial statements	2	-	-	-	-	-	-	(1,101,456)	**(1,101,456)**
Restated balance as of Januray 1, 2011		15,529,313	42,400,612	2,278,270	3,091,190	7,078,882	90,748	(55,243,562)	**(303,860)**
Stock-based compensation costs	11	-	-	-	2,681	-	-	-	**2,681**
Conversion of Series A preferred shares into capital stock	10	375,000	189,636	(40,557)	-	-	-	-	**149,079**
Net income (loss) for the period		-	-	-	-	-	-	(4,458,105)	**(4,458,105)**
Balance as of September 30, 2010		15,904,313	42,590,248	2,237,713	3,093,871	7,078,882	90,748	(59,701,667)	**(4,610,205)**
Stock-based compensation costs	11	-	-	-	305	-	-	-	**305**
Conversion of Series A preferred shares into capital stock	10	2,625,000	1,359,763	(283,900)	-	-	-	-	**1,075,863**
Net income (loss) for the period		-	-	-	-	-	-	(1,287,683)	**(1,287,683)**
Balance as of December 31, 2010		18,529,313	43,950,011	1,953,813	3,094,176	7,078,882	90,748	(60,989,350)	**(4,821,720)**
Stock-based compensation costs	11	-	-	-	2,681	-	-	-	**2,681**
Conversion of Series A preferred shares into capital stock	10	768,342	453,474	(83,098)	-	-	-	-	**370,376**
Redemption of preferred shares	10	-	-	(506,781)	-	-	-	(255,387)	**(762,168)**
Net income (loss) for the period		-	-	-	-	-	-	8,284,495	**8,284,495**
Balance as of September 30, 2011		**19,297,655**	**44,403,485**	**1,363,934**	**3,096,857**	**7,078,882**	**90,748**	**(52,960,242)**	**3,073,664**

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

Victhom Human Bionics

Consolidated Statements of Cash Flows
Periods ended on September 30
(unaudited)

	Note	2011 (3 months)	2010 (3 months)	2011 (9 months) (Restated - Note 2)	2010 (9 months)
		$	$	$	$
OPERATING ACTIVITIES					
Net income (loss) for the period		**(1,586,375)**	(1,310,793)	**8,284,495**	(4,458,105)
Non-cash items:					
Stock-based compensation	11	**55**	637	**2,681**	2,681
Interest on preferred shares	10	**323,327**	379,807	**1,046,204**	1,082,152
Exchange rate variation on preferred shares	10	**884,325**	(277,082)	**445,748**	(276,268)
Gain on disposal of property, plant and equipment and intangible assets	19	**-**	(43,563)	**-**	(43,563)
Amortization of property, plant and equipment		**1,007**	527	**2,613**	19,987
Amortization of intangible assets		**22,260**	19,745	**66,060**	65,964
Gain on disposal of interest in joint venture, net of tax		**-**	-	**(11,576,544)**	-
Changes in non-cash operating working capital items		**150,772**	(122,173)	**123,807**	(200,899)
Cash flows from operating activities		**(204,629)**	(1,352,895)	**(1,604,936)**	(3,808,051)
INVESTING ACTIVITIES					
Short-term investments		**47,200**	(47,200)	**47,200**	47,800
Property, plant and equipment		**(5,523)**	-	**(5,523)**	-
Disposal of property, plant and equipment and intangible assets	19	**-**	100,000	**-**	100,000
Intangible assets		**-**	-	**-**	8,145
Sale of interest in joint venture	8	**-**	-	**5,000,000**	-
Cash flows from investing activities		**41,677**	52,800	**5,041,677**	155,945
FINANCING ACTIVITIES					
Interest paid		**-**	(2,489)	**(2,246)**	(18,816)
Demand loan	9	**-**	472,000	**-**	472,000
Repayment of demand loan	9	**-**	-	**(472,000)**	(950,000)
Redemption of preferred shares	10	**(2,958,097)**	-	**(2,958,097)**	-
Cash flows from financing activities		**(2,958,097)**	469,511	**(3,432,343)**	(496,816)
Net increase in cash from operating activities of discontinued operations		**-**	213,310	**139,260**	512,072
Net decrease in cash from investing activities of discontinued operations		**-**	(143,618)	**(51,629)**	(262,069)
Net increase in cash from financing activities of discontinued operations		**-**	1,044,444	**933,333**	3,244,444
Net increase (decrease) in cash and cash equivalents		**(3,121,049)**	283,552	**1,025,362**	(654,475)
Cash and cash equivalents, beginning of period		**5,644,623**	172,185	**1,498,212**	1,110,212
Cash and cash equivalents, end of period		**2,523,574**	455,737	**2,523,574**	455,737
Supplementary information	12				
Cash and cash equivalents are detailed as follows:					
Cash in National Bank of Canada				**123,045**	455,737
Banker's acceptance, interest of 1.06% annually, maturing on December 12, 2011				**2,400,529**	-
				2,523,574	455,737

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

1. Governing statues and nature of operations

Victhom Human Bionics Inc. ("the Company" or "Victhom") is incorporated under the Canada Business Corporation Act and the Company's head office is located at 5365, rue Jean-Talon East, suite 204, Montréal (Québec), Canada, H1S 3G2.

Victhom is a company which owns patents in the field of orthotics and prosthetics ("O&P"), including intellectual property used in the Power Knee, the world's first and only motor-powered prosthesis for above-knee amputees, a product distributed under license agreement by Ossur, a global leader in the O&P market. The Company also has a royalty agreement related to the Neurostep® System and neuromodulation products in other indications (sleep apnea and epilepsy) using the Neurobionix technology platform currently under development by Neurostream Technologies, G.P. ("Neurostream"), a General Partnership now owned by Otto Bock, a global leader in the O&P market.

In past years, the Company has incurred operating losses. The Company's ability to generate future revenues and cash flows from its activities depends on several factors, including its distributors' ability to have Victhom's royalty-generating products accepted by the regulatory agencies and the market. Management believes that, with its financial situation, Victhom will have sufficient liquidity to support its cash flow requirements for at least the next twelve months.

2. Correction of an error in prior financial statements

During the third quarter of 2011, the Company discovered an accounting discrepancy in its previously reported consolidated financial statements for fiscal years 2009 and 2010. The gain on assets and liabilities transfer, generated by the creation of the joint venture Neurostream, should have been allocated differently between the statement of operations and the statement of financial position. The Company decided to restate its statement of financial position as of January 1, 2010 and December 31, 2010. The Company also has to adjust its statement of operations and comprehensive income for the nine-month period ended on September 30, 2011. The restatement had no cash impact. The impacts of this restatement are as indicated below:

Increase (decrease)	September 30 2011	December 31 2010	January 1 2010
	$	$	$
Statement of financial position			
Intangible assets	-	(1,097,935)	(1,097,935)
Unrealized gain on assets and liabilities transfer	-	3,521	3,521
Deficit	-	1,101,456	1,101,456
Statement of operations and comprehensive income			
Gain on disposal of interest in joint venture, net of tax	1,101,456	-	-

3. Basis of preparation and accounting policies

The accompanying unaudited condensed interim consolidated financial statements (the "condensed financial statements") as of September 30, 2011 and for the nine-month periods ended on September 30, 2011 and 2010 are unaudited.

Statement of compliance

These condensed financial statements are prepared under International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") in accordance with IAS 34, *Interim Financial Reporting*, and IFRS 1, *First-time Adoption of International Financial Accounting Standards* ("IFRS 1"), given that these condensed financial statements represent the Company's initial presentation of its financial position, results of operations and cash flows in accordance with IFRS.

Prior to January 1, 2011, the Company's consolidated financial statements were prepared in accordance with Canadian Generally Accepted Accounting Principles ("Canadian GAAP"), which differ in certain respects from IFRS. Accordingly, the Company commenced reporting on an IFRS basis as of January 1, 2011.

The accounting policies have been applied consistently within these condensed financial statements and our opening consolidated statement of financial position as at the transition date of January 1, 2010 ("the Transition Date") prepared for the purposes of transition to IFRS, using the accounting policies the Company expects to adopt in its first Annual Consolidated Financial Statements as of and for the year ended December 31, 2011.

Note 20 includes the required disclosures under IFRS 1 with regards to our first-time adoption of IFRS and the differences from our previous basis of accounting, Canadian GAAP. A reconciliation between previous Canadian GAAP and IFRS is available in Note 20.

These condensed financial statements were approved by the Board of Directors and authorized for issue on November 28, 2011.

Basis of preparation

The condensed financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

The main accounting policies are set out below.

Principles of consolidation

These condensed financial statements include the results of operations and the financial position of the Company, its wholly-owned subsidiary and its Neurostream joint venture, in which the Company was holding a 44.4% interest until June 30, 2011.

a) Subsidiaries

Subsidiaries are all entities over which the group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases.

Inter-company transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized gains and losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Company.

b) Joint venture

A joint venture is a contractual arrangement whereby the Company and other parties undertake an economic activity that is subject to joint control (i.e., when the strategic financial and operating policy decisions relating to the activities of the joint venture require the unanimous consent of the parties sharing control).

Joint venture arrangements that involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities. The Company reports its interests in jointly controlled entities using proportionate consolidation, except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5, *Non-Current Assets Held for Sale and Discontinued Operations*. The Company's share of the assets, liabilities, income and expenses of jointly controlled entities is combined with the equivalent items in the condensed financial statements on a line-by-line basis.

When the Company transacts with the joint venture, profits and losses are eliminated to the extent of the Company's interest in the joint venture.

Accounting estimates

The preparation of financial statements under IAS 34 requires Management to make estimates and assumptions that affect the amounts of assets and liabilities reported in the financial statements. Those estimates and assumptions also affect the disclosure of contingencies at the date of the financial statements and the reported amounts of revenues and expenses during the periods.

The following are the critical judgments and key sources of estimation:

- Stock-based compensation
- Preferred shares
- Determination of functional currency
- Receivable amount from investment tax credits
- Valuation of intangible assets

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both the current and future periods.

For all these items, relevant accounting policies are discussed in the other parts of Note 3.

Foreign currency translation

The temporal method is used for accounts in foreign currencies. Under this method, monetary assets and liabilities in foreign currencies are translated into Canadian dollars at the exchange rate in effect at the balance sheet date and non-monetary assets and liabilities are translated at the exchange rate in effect at the transaction date. Revenues and expenses in foreign currencies are translated at the average rate in effect during the year, with the exception of amortization, which is translated at the rate applicable to the corresponding assets. Gains and losses on this translation of foreign currencies are reflected in the statements of operations in the current period.

The Company's reporting currency is the Canadian dollar. The functional currency of the Company, its subsidiary and its joint venture is the Canadian dollar.

Property, plant and equipment

Property, plant and equipment are recorded initially and subsequently at cost less amortization and impairment. Amortization is calculated using the straight-line method over their estimated useful life as follows:

Computer equipment	4 years
Furniture and equipment	5 years
Leasehold improvements	Lease terms

The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimates being accounted for on a prospective basis.

Intangible assets

Intangible assets with finite useful lives are carried at cost less accumulated amortization and accumulated impairment losses. Intangible assets with indefinite useful lives are carried at cost less accumulated impairment losses. Amortization is recognized on a straight-line basis over their estimated useful lives, which are as follows:

Software	4 years
Patents / intellectual property	10 years

Patents / intellectual property are amortized beginning in the year in which the developed products are marketed.

The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimates being accounted for on a prospective basis.

Impairment of non-financial assets

At the end of each reporting period, assets are reviewed to look for any indication that an asset may be impaired. If impairment is indicated, the asset's recoverable amount is calculated to establish the amount of the impairment loss, if any. If it is not possible to determine the recoverable amount for an individual asset, then the recoverable amount of the asset's cash-generating unit is determined. Intangible assets with indefinite useful lives are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

The recoverable amount is the higher of an asset's fair value less cost to sell and its value in use. Value in use is the present value of estimated future cash flows discounted at pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the asset for which estimated future cash flows were not adjusted.

If the asset's (or a cash-generating unit's) estimated recoverable amount is lower than its carrying amount, the asset's (or the cash-generating unit's) carrying amount is brought down to its recoverable amount. An impairment loss is immediately recognized in profit or loss.

A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are independent of cash inflows from other groups of assets.

Impairment of financial assets

The Company assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred "loss event") and that the loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the non-current asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets (or disposal group) classified as held for sale are measured at the lower of i) the carrying amount and ii) fair value less costs to sell.

In the consolidated statement of comprehensive income of the reporting period, and of the comparable period of the previous year, income and expenses from discontinued operations are reported separately from income and expenses from continuing operations. The resulting profit or loss is reported separately in the statement of comprehensive income.

Property, plant and equipment and intangible assets once classified as held for sale are not depreciated or amortized.

Share issuance costs

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

Financial assets and liabilities

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument.

On initial recognition, all financial assets and liabilities are measured and recognized at their fair value and their subsequent measurement depends on their classification as described below:

Cash and cash equivalents	Held for trading
Short-term investments	Held for trading
Accounts receivable	Loans and receivables
Capital contribution receivable	Loans and receivables
Amount receivable from Otto Bock	Loans and receivables
Demand loan	Other liabilities
Accounts payable and accrued liabilities	Other liabilities
Note payable	Other liabilities
Preferred shares	Other liabilities

Held for trading are measured at fair value.

Loans and receivables are measured at amortized cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate.

Other liabilities are subsequently measured at amortized cost using the effective interest method. The effective interest method is a method of calculating the amortized cost of financial liability and of allocating interest expense over the relevant period.

Transaction costs related to other liabilities and to loans and receivables are added to the carrying value of the asset or are netted against the carrying value of the liability and are then recognized over the expected life of the instrument using the effective interest method.

The fair value of a financial instrument is equal to the amount at which this instrument could be traded knowingly and willingly between the parties involved. Fair value is based on the published prices (buy/ask prices) in an active market. If this is not the case, fair value is based on the prevailing market prices for instruments with similar risk profiles and characteristics or on internal or external valuation models that use observable market data.

Cash and cash equivalents

Cash includes cash and demand deposits. Cash equivalents include very liquid investments convertible into a known cash amount and maturing within less than three months from the date of acquisition.

Short-term investments

Short-term investments, other than those considered as cash equivalents, are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

Investment transactions are recorded on the transaction date.

Revenue recognition

By virtue of commercial agreements, the Company is entitled to receive royalties on its products commercialized by third parties. The royalties, net of the repayment of advances on royalty, if any, will be recognized in the statement of operations when the products are sold by third parties.

Interest income

Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Company and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Research and development costs

Research costs are expensed as incurred. Development costs are expensed as incurred except for those which meet generally accepted criteria for deferral, in which case the costs are capitalized and amortized to operations over the estimated period of benefit. No costs have been deferred during any of the periods presented.

Investment tax credits

Investment tax credits for research and development expenditures are applied against the related costs in the year during which the qualifying expenditures are incurred provided that there is reasonable assurance that the credits will be earned. The investment tax credits must be examined and approved by the tax authorities and the amounts granted might differ from the amounts recorded.

Convertible preferred shares

Convertible preferred shares are separated into liability and equity components based on the terms included in the description of share capital of Victhom.

On issuance of the convertible preferred shares, the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond. This amount is classified as a financial liability measured at amortized cost (net of transaction costs) until it is extinguished on conversion or redemption.

The remainder of the proceeds is allocated to the conversion option that is recognized and included in shareholders' equity. Transaction costs are deducted from equity, net of associated income tax. The carrying amount of the conversion option is not remeasured in subsequent years.

Transaction costs are apportioned between the liability and equity components of the convertible preferred shares based on the allocation of proceeds to the liability and equity components when the instruments are initially recognized.

Stock option plan

The Company offers an equity-settled share-based compensation plan under which the Company receives services from employees as consideration for equity instruments of the Company. The Company accounts for employee stock-based compensation using the fair value-based method.

The fair value of stock options is determined using the Black-Scholes pricing model. The Company also includes estimates of the number of awards that are expected to vest over the vesting period. Where granted share options vest in installments over the vesting period (defined as graded vesting), the Company treats each installment as a separate share option grant. Share-based compensation expenses are recognized in the statement of operations over the vesting period and are credited to "Reserve – Stock options".

Any consideration received by the Company in connection with the exercise of stock options is credited to capital stock. Any "Reserve – Stock options" component of the stock-based compensation related to the stock options exercised is transferred to capital stock upon the issuance of shares.

Warrants

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 in "Reserve – Warrants" in the shareholders' equity.

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 is calculated by dividing the net income for the period attributable to equity owners of the Company by the weighted average number of common shares outstanding during the period, plus the effects of dilutive common share equivalents. This method requires that diluted earnings per share be calculated using the treasury stock method, as if all dilutive potential common share equivalents had been exercised at the beginning of the reporting period, or period of issuance, as the case may be, and that the funds obtained thereby be used to purchase common shares of the Company at the fair value of the common shares during the period.

For the nine-month period ended on September 30, 2011, the preferred shares and the stock options were included in the calculation and had no impact on the diluted earning per share. In 2010 and for the three-month period ended on September 30, 2011, the preferred shares 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 assets and liability method to account for income taxes. Under this method, deferred income tax assets and liabilities are determined according to differences between the carrying amounts and tax bases of 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.

Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

4. Future accounting changes

IFRS 9, Financial Instruments

IFRS 9, *Financial Instruments* ("IFRS 9"), issued in November 2009, introduces new requirements for the classification and measurement of financial assets, financial liabilities and for derecognition. IFRS 9 will be effective for annual periods beginning on or after January 1, 2013, with earlier application permitted.

IFRS 9 requires all recognized financial assets that are within the scope of IAS 39, *Financial Instruments: Recognition and Measurement*, to be subsequently measured at amortized cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

The Company anticipates that IFRS 9 will be adopted for the annual period beginning January 1, 2013. At this moment, it is not practicable to provide a reasonable estimate of the effect until a detailed review has been completed.

IFRS 10, Consolidated Financial Statements

IFRS 10, *Consolidated Financial Statements* ("IFRS 10"), issued in May 2011, sets basis for consolidation on the principle of control. IFRS 10 will be effective for annual periods beginning on or after January 1, 2013, with earlier application permitted with certain restrictions.

IFRS 10 redefines the definition of control which will include three elements. Those elements are the power over an investee, the exposure or rights to variable returns of the investee and the ability to use power over the investee to affect the investor's returns. Investors must possess all three elements to conclude they control an investee.

The Company anticipates that IFRS 10 will be adopted for the annual period beginning January 1, 2013. At this moment, it is not practicable to provide a reasonable estimate of the effect until a detailed review has been completed.

IFRS 11, Joint Arrangements

IFRS 11, *Joint Arrangements* ("IFRS 11"), issued in May 2011, introduces new requirements for the classification of joint arrangements. IFRS 11 will be effective for annual periods beginning on or after January 1, 2013, with earlier application permitted with certain restrictions.

IFRS 11 requires joint arrangements to be classified as either joint operation or joint ventures. Joint operation is defined as a joint arrangement whereby the parties that have joint control have rights to the assets and obligations for the liabilities. Joint venture is defined as joint arrangement whereby the parties that have control of the arrangement have rights to the net assets of the arrangement. IFRS 11 requires the use of the equity method of accounting for interests in joint ventures thereby eliminating the proportionate consolidation method.

The Company anticipates that IFRS 11 will be adopted for the annual period beginning January 1, 2013. At this moment, it is not practicable to provide a reasonable estimate of the effect until a detailed review has been completed.

IFRS 12 – Disclosure of Interests in Other Entities

IFRS 12, *Disclosure of Interests in Other Entities* ("IFRS 11"), issued in May 2011, establishes disclosure requirements for entities that have an interest in subsidiaries, joint arrangements, associates or unconsolidated structured entities. IFRS 12 will be effective for annual periods beginning on or after January 1, 2013, with earlier application permitted with certain restrictions.

The Company anticipates that IFRS 12 will be adopted for the annual period beginning January 1, 2013. At this moment, it is not practicable to provide a reasonable estimate of the effect until a detailed review has been completed.

IFRS 13 – Fair Value Measurement

IFRS 13, *Fair Value Measurement* ("IFRS 13"), issued in May 2011, establishes a single framework for measuring fair value where that is required in other standards. IFRS 13 will be effective for annual periods beginning on or after January 1, 2013, with earlier application permitted.

IFRS 13 will apply for both financial and non-financial items measured at fair value. Under IFRS 13, the fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The Company anticipates that IFRS 13 will be adopted for the annual period beginning January 1, 2013. At this moment, it is not practicable to provide a reasonable estimate of the effect until a detailed review has been completed.

IAS 27 – Separate Financial Statements

IAS 27, Separate Financial Statements ("IAS 27"), issued in May 2011, will now only present the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. As a result of the issue of the new consolidation suite of standards, IAS 27 has been reissued as the consolidation guidance will now be included in IFRS 10.

The Company anticipates that IAS 27 will be adopted for the annual period beginning January 1, 2013. At this moment, it is not practicable to provide a reasonable estimate of the effect until a detailed review has been completed.

5. Short-term investments

	September 30 2011	December 31 2010	January 1 2010
	$	$	$
Guaranteed investment certificate, bearing interest of 0.75% annually, provided as security on the demand loan, matured in July 2011	**-**	47,323	-
Guaranteed investment certificate, bearing interest of 0.37% annually, provided as security on the demand loan, matured in March 2010	**-**	-	95,196
	-	47,323	95,196

6. Accounts receivable

	September 30 2011	December 31 2010	January 1 2010
	$	$	$
Investment tax credits receivable	**521,683**	630,473	2,060,117
Sales taxes receivable	**15,373**	34,483	113,942
Trade accounts receivable	**20,081**	20,223	65,862
	557,137	685,179	2,239,921

7. Intangible assets

	September 30, 2011		
	Costs	**Accumulated amortization**	**Net**
	$	**$**	**$**
Software	**92,874**	**91,386**	**1,488**
Patents / intellectual property	**811,142**	**360,466**	**450,676**
	904,016	**451,852**	**452,164**

	December 31, 2010		
	Costs	Accumulated amortization	Net
	$	$	$
Software	270,801	132,741	138,060
Patents / intellectual property	4605,761	294,772	4,310,989
	4,876,562	427,513	4,449,049

	January 1, 2010		
	Costs	Accumulated amortization	Net
	$	$	$
Software	212,762	188,838	23,924
Patents / intellectual property	4,568,415	210,144	4,358,271
	4,781,177	398,982	4,382,195

During the year ended on December 31, 2010, the Company sold software to Neurostream for gross proceeds of $10,511. This amount was applied against the amount payable to Neurostream. The excess of the consideration received over the carrying value is $1,507.

As of December 31, 2010, accounts payable included $92,793 ($18,699 in 2009) of software.

8. Interest in joint venture classified as held for sale and discontinued operations

Initial recognition

The joint venture Neurostream is governed by the General Partnership Agreement (“the GP agreement”) executed on June 18, 2009. As per the GP agreement, Victhom had the right but not the obligation, after December 31, 2011, to sell a portion of or all its interest in Neurostream to Otto Bock.

On March 31, 2011, based on the GP agreement, Victhom decided to classify its participation in Neurostream as held for sale. The Company determined that its participation met the criteria to be classified as held for sale at that date for the following reasons:

i) Its participation in Neurostream will be available for sale after December 31, 2011 as detailed in the GP agreement;

ii) The potential buyer is already determined by the GP agreement to be Otto Bock;

iii) The negotiations should be finalized and the sale should be completed during the first quarter of 2012, i.e., within the next twelve months.

Consequently, the Company ceased the proportional consolidation of its interest in Neurostream as of March 31, 2011 and classified its interest in joint venture as held for sale and Neurostream's operating results as discontinued operations.

Neurostream's operations are presented in our Neurobionix segment.

Discontinued operations for the periods are as follows:

	Three-month periods ended on September 30		**Nine-month periods ended on September 30**	
	2011	2010	**2011**	2010
	$	$	**$**	$
Revenues	**-**	-	**-**	-
Expenses				
Research and development	**-**	1,026,659	**763,045**	3,475,706
Tax credits	**-**	-	**-**	-
General and administrative	**-**	110,475	**151,002**	327,888
Financial	**-**	22,273	**54,854**	44,124
Loss for the periods from discontinued operations	**-**	1,159,407	**968,901**	3,847,718

Sale of our interest in joint venture

On June 16, 2011, Victhom announced that the 44.4% participation of its wholly-owned subsidiary, 4504054 Canada Inc., in Neurostream was acquired by its joint venture partner 4491343 Canada Inc., a related party to Otto Bock Healthcare, for an aggregate consideration of CAN$ 10 million in cash.

The effective date of this transaction was June 30, 2011, at which time Otto Bock paid the first tranche of CAN$ 5 million of this consideration, the balance being payable on February 1, 2012 and secured by a first demand, irrevocable bank guarantee. The following tables summarize the impact of this transaction.

	$
Initial investment in the joint venture	10,000,000
Accumulated deficit from joint venture's operations	(9,449,860)
Portion of gain on assets and liabilities transfer related to Victhom (Restated – Note 2)	(1,097,935)
Unrealized gain on assets and liabilities transfer (Restated – Note 2)	(958,247)
Interest in joint venture classified as held for sale	(1,506,042)

	$
Gross proceeds	10,000,000
Less: 1) Interest in joint venture classified as held for sale	1,506,042
2) Transaction costs	(143,112)
Gain on disposal of interest in joint venture	11,362,930

The proceeds from the transaction was/will be used, as per the incorporating documents of Victhom and the conditions of the outstanding Series A preferred shares, to redeem these shares for approximately up to $7 million and for general corporate purposes. Further details are provided in Note 10.

9. 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 property; and iii) a certificate of guarantee issued by Investissement Québec for a maximum of 80% of the demand loan.

As per the 2009 credit facilities requirements, the Company had invested 10% of the demand loan in a guaranteed investment certificate, which matured in March 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 credits receivable.

Pursuant to the terms and conditions of the 2009 credit facilities, the Company was subject to certain debt covenants with regard to maintaining financial ratios. As of January 1, 2010, the Company did not respect the debt covenants, but had obtained a waiver from its financial institution. There was no consequence for the Company due to the demand loan being presented as current liabilities.

In July 2010, the Company obtained a credit facility for a demand loan totaling $472,000 with Investissement Québec. The demand loan was secured by: i) the 2009 investment tax credits receivable and ii) a first call of $566,000 on the universality of the Company's property.

As per the 2010 credit facility requirements, the Company has invested 10% of the demand loan in a guaranteed investment certificate, which will mature in July 2011. The demand loan was bearing interest at prime rate plus 3.5% (6.5%). In January 2011, the demand loan of $472,000 was reimbursed with the receipt of the 2009 investment tax credits receivable.

Pursuant to the terms and conditions of the 2010 credit facility, the Company was subject to a debt covenant with regard to maintaining a financial ratio. As of December 31, 2010, the Company did not respect the debt covenant. There was no consequence for the Company due to the demand loan being presented as current liabilities.

10. 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 *mutatis mutandis*.
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 January 1, 2010	15,529,313	42,400,612
Conversion of Series A preferred shares	375,000	189,636
Balance as of September 30, 2010	15,904,313	42,590,248
Conversion of Series A preferred shares	2,625,000	1,359,763
Balance as of December 31, 2010	18,529,313	43,950,011
Conversion of Series A preferred shares	768,342	453,474
Balance as of September 30, 2011	**19,297,655**	**44,403,485**

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 January 1, 2010	21,065,361	6,420,908	2,278,270
Imputed interest	-	1,082,152	-
Exchange rate gain	-	(276,268)	-
Conversion into common shares	(375,000)	(149,079)	(40,557)
Balance as of September 30, 2010	20,690,361	7,077,713	2,237,713
Imputed interest	-	359,609	-
Exchange rate gain	-	(112,919)	-
Conversion into common shares	(2,625,000)	(1,075,863)	(283,900)
Balance as of December 31, 2010	18,065,361	6,248,540	1,953,813
Imputed interest	-	1,046,204	-
Exchange rate loss	-	445,748	-
Redemption	(4,685,799)	(2,201,290)	(506,781)
Conversion into common shares	(768,342)	(370,376)	(83,098)
Balance as of September 30, 2011	**12,611,220**	**5,168,826**	**1,363,934**

Initial recognition of preferred shares

In determining the fair value of the liability component of the Series A preferred shares, the Company was faced with no comparable transaction on the open market. Therefore, at the time of conversion, Management used the most relevant interest rate based on the information available, which was 18.38%.

The value attributed to the equity component of the Series A preferred shares is the difference between the $10M of fair value of the Series A preferred shares and the liability component. Therefore, the interest expense is recognized into operating results using an effective rate of 18.38%. Furthermore, the transaction costs for an amount of $195,707 have been proportionally applied against both components, i.e., $146,177 against the liability component and $49,530 against the equity component.

Conversion of preferred shares

During the first nine months of 2011, 768,342 Series A preferred shares for a redemption amount of US$ 507,106 were converted into common shares, which compares to 3,000,000 Series A preferred shares converted into common shares for a redemption amount of US$ 1,980,000 in 2010. As of September 30, 2011, the outstanding number of Series A preferred shares is 12,611,220, which represents a redemption amount of US$ 8,323,405 or CAN$ 8,724,593.

Redemption of preferred shares

Following the sale of our interest in Neurostream joint venture, completed on June 30, 2011, the Company received from Otto Bock the first tranche of CAN$5 million. As per the incorporating documents of Victhom and the conditions of the Series A preferred shares, the Company redeemed, on July 19, 2011, a portion of its outstanding Series A preferred shares for a total redemption amount of CAN$ 2,958,097 in cash.

The redemption amount being payable in U.S. dollars, each Series A preferred share having to be redeemed for an amount of US$ 0.66, the final redemption amount in U.S. dollars and the number of Series A preferred shares purchased have been determined using a foreign exchange rate of CAN/US $1.0454783. The number of Series A preferred shares redeemed was 4,685,799 against a total redemption payment of US$ 3,092,626.

Furthermore, with the receipt in February 2012 of the final payment in the amount of CAN$ 5 million, the Company will be required to redeem a portion of its Series A preferred shares for a total redemption amount of CAN$ 4 million.

Warrants

As of September 30, 2011, there were no outstanding warrants. All warrants expired in March 2010.

11. 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, 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 nine months of 2011 and during the year 2010.

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 January 1, 2010	584,050	3.85
Forfeited	(327,787)	2.11
Outstanding, as of September 30, 2010	256,263	6.08
Forfeited	(3,411)	1.05
Outstanding, as of December 31, 2010	252,852	6.15
Forfeited	(75,852)	7.90
Outstanding and exercisable, as of September 30, 2011	**177,000**	**5.40**

For the three-month period ended on September 30, 2011, the Company added $55 ($637 in 2010) to the stock-based compensation. For the nine-month period ended on September 30, 2011, the Company added $2,681 ($2,681 in 2010) to the stock-based compensation.

As of September 30, 2011, the following stock options were outstanding and exercisable:

Range of exercise prices	Number of options	Weighted average remaining contractual life (in years)	Weighted average exercise price
			$
$0.90 to $1.17	5,000	6.83	0.90
$1.18 to $1.53	15,000	6.67	1.20
$1.54 to $2.00	50,000	6.08	1.60
$2.62 to $3.41	30,000	5.63	3.20
$4.45 to $5.77	25,000	0.71	5.30
$5.78 to $7.51	10,000	0.13	6.30
$9.78 to $12.70	26,000	1.87	11.50
$12.71 to $16.50	16,000	1.37	16.39
$0.90 to $16.50	177,000	3.94	5.40

12. Supplementary information

	Three-month periods ended on September 30		Nine-month periods ended on September 30	
	2011	2010	**2011**	2010
	$	$	**$**	$
Non-cash investing activities				
Amount receivable from Otto Bock related to the sale of interest in joint venture	-	**-**	5,000,000	**-**
Non-cash financing activities				
Conversion of preferred shares into common shares:				
Liability component of preferred shares	**(370,376)**	(149,079)	**(370,376)**	(149,077)
Equity component of preferred shares	**(83,098)**	(40,557)	**(83,098)**	(40,557)
Capital stock	**453,474**	189,636	**453,474**	189,636

13. Information included in the consolidated statement of operations

	Three-month periods ended on September 30		Nine-month periods ended on September 30	
	2011	2010	**2011**	2010
	$	$	**$**	$
Financial expenses				
Interest on demand loan	**-**	2,488	**1,063**	18,815
Interest income on loans and receivables	**(6,202)**	(48)	**(11,131)**	(264)
Interest income on investment tax credits	**-**	-	**-**	(47,684)
Exchange (gain) loss on operations	**(3,218)**	1,914	**(1,523)**	13,154
Other financial expenses	**216**	18,375	**1,929**	46,709
	(9,204)	22,729	**(9,662)**	30,730

14. 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 financial position dates. The Company's financial assets and liabilities are its cash and cash equivalents, short-term investments, trade accounts receivable, capital contribution receivable, amount receivable from Otto Bock, demand loan, accounts payable and accrued liabilities, note payable, and the liability component of its preferred shares.

Fair value

As of September 30, 2011, December 31, 2010 and January 1, 2010, the fair value of cash and cash equivalents, short-term investments, trade accounts receivable, capital contribution receivable, amount receivable from Otto Bock, demand loan, accounts payable and accrued liabilities approximates their carrying-amount given that they will mature shortly. The fair value of the note payable approximates the carrying amount since it is classified as “Other financial liabilities” issued from a Neurostream related party.

The following tables provide the carrying amount and the fair value of each category of financial assets and liabilities:

			Fair value
	September 30, 2011	December 31, 2010	January 1, 2010
	$	$	$
Financial assets			
Held for trading			
Cash and cash equivalents	**2,523,574**	1,498,212	1,110,212
Short-term investments	**-**	47,323	95,196
	2,523,574	1,545,535	1,205,408
Loans and receivables			
Trade accounts receivable	**20,081**	20,223	65,862
Capital contribution receivable	**-**	-	1,222,222
Amount receivable from Otto Bock	**5,000,000**	-	-
	5,020,081	20,223	1,288,084
Financial liabilities			
Other financial liabilities			
Demand loan	**-**	472,000	950,000
Accounts payable and accrued liabilities	**41,717**	492,472	440,171
Note payable	**-**	3,375,963	-
Preferred shares	**5,168,826**	6,248,540	6,420,908
	5,210,543	10,588,975	7,811,079

			Carrying amount
	September 30, 2011	December 31, 2010	January 1, 2010
	$	$	$
Financial assets			
Held for trading			
Cash and cash equivalents	**2,523,574**	1,498,212	1,110,212
Short-term investments	**-**	47,323	95,196
	2,523,574	1,545,535	1,205,408
Loans and receivables			
Trade accounts receivable	**20,081**	20,223	65,862
Capital contribution receivable	**-**	-	1,222,222
Amount receivable from Otto Bock	**5,000,000**	-	-
	5,020,081	20,223	1,288,084

	Carrying amount		
	September 30, 2011	December 31, 2010	January 1, 2010
	$	$	$
Financial liabilities			
Other financial liabilities			
Demand loan	**-**	472,000	950,000
Accounts payable and accrued liabilities	**41,717**	492,472	440,171
Note payable	**-**	3,375,963	-
Preferred shares	**5,168,826**	6,248,540	6,420,908
	5,210,543	10,588,975	7,811,079

Credit risk

Credit risk is the risk that an unexpected loss occurs if a counterparty to a financial instrument fails to meet is contractual obligations.

Financial assets that potentially subject the Company to credit risk consist of cash and cash equivalents, short-term investments and trade accounts receivable. As of the financial position dates, the Company had cash and cash equivalents and short-term investments with a reputable financial institution. 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 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 a liquidity risk mainly on its Series A preferred shares, which 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 10)

Foreign currency risk

The Company is exposed to a currency risk due to its revenues and its Series A preferred shares redeemable in U.S. dollars. The Company has no currency hedging protection. Management assesses the Company's currency risk to be significant.

As of the financial position dates, the Company had the following significant balances in foreign currencies:

			US$
	September 30, 2011	December 31, 2010	January 1, 2010
Cash	**44,618**	42,397	724,151
Accounts receivable	**18,769**	19,059	62,700
Accounts payable and accrued liabilities	**(51,060)**	(145,597)	(286,094)
Preferred shares	**(4,931,145)**	(6,282,465)	(6,109,332)
Net exposure	**(4,918,818)**	(6,366,606)	(5,608,575)

Also, the Company had accounts payable and accrued liabilities in Euros for an amount of € 0 as of September 30, 2011, € 69,333 as of December 31, 2010 and € 240 as of January 1, 2010.

15. Capital structure financial policy

The Company's objectives when managing capital are to: 1) safeguard the Company's ability to invest as necessary in the future development of the business; 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 and the liability component of the preferred shares, representing $8,242,490 as of September 30, 2011, $1,426,820 as of December 31, 2010, and $6,117,048 as of January 1, 2010. 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 regards to the expected timing of expenditures from continuing operations.

The Company does not have externally imposed capital requirements. However, the Company was subject to debt covenants in its 2009 and 2010 credit facility agreements, which were measured on a quarterly basis for Victhom Human Bionics Inc. non-consolidated financial statements.

Pursuant to its 2010 credit facility agreement, as of and for the year ended on December 31, 2010, the Company was not compliant with the debt covenant requirement, which is maintaining a ratio of long-term debt on adjusted net equity equal to or lower than 2.5 : 1. There was no consequence for the Company due to the demand loan being presented as current liabilities.

Pursuant to its 2009 credit facilities agreement, as of January 1, 2010, the Company was not compliant with the debt covenant requirements, which were: i) minimum cash balance of $1,000,000; and ii) minimum net equity of $3,000,000, but the Company obtained a waiver from its financial institution. There was no consequence for the Company due to the demand loan being presented as current liabilities.

16. Segmented information

The Company has two reportable operating segments. The Biotronix division owns patents in the field of orthotics and prosthetics ("O&P"), including intellectual property used in the Power Knee, a product distributed under license agreement by Ossur. The Neurobionix division has a royalty agreement related to the Neurostep® System and neuromodulation products in other indications (sleep apnea and epilepsy) using the Neurobionix technology platform currently under development by Neurostream. These operating segments have been determined based on the fact that: i) specific devices have been developed for different markets; and ii) Biotronix segment represents almost all of the Company's revenues.

During the first nine months of 2011, the Company generated revenues from royalties on its Power Knee II for an amount of $70,853 ($38,705 in 2010), and from other sources for an amount of $0 ($2,482 in 2010). Revenues were derived from a European medical device company located in Iceland.

The Company has used the same accounting policies, as described in Note 3, 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:

	Three-month periods ended on September 30		**Nine-month periods ended on September 30**	
	2011	2010	**2011**	2010
	$	$	**$**	$
BIOTRONIX				
Revenues	**19,673**	10,914	**70,853**	41,187
Expenses				
Research and development	**-**	-	**-**	48,271
Tax credits	**-**	-	**-**	(309,077)
Amortization of intangible assets	**22,140**	19,875	**65,694**	62,488
	22,140	19,875	**65,694**	(198,318)

	Three-month periods ended on September 30		Nine-month periods ended on September 30	
	2011	2010	**2011**	2010
	$	$	**$**	$
NEUROBIONIX				
Revenues	**-**	-	**-**	-
Expenses				
Research and development	**-**	-	**-**	5,243
Tax credits	**139,525**	(128,771)	**(60,310)**	(1,003,064)
	139,525	(128,771)	**(60,310)**	(997,821)

17. Earnings per share

The basic and the diluted loss per share for the periods are reconciled in the table below:

	Three-month periods ended on September 30		Nine-month periods ended on September 30	
	2011	2010	**2011**	2010
	$	$	**$**	$
Net income (loss) and comprehensive income				
Basic and diluted	**(1,586,375)**	(1,310,793)	**8,284,495**	(4,458,105)
Net income (loss) from continuing operations				
Basic and diluted	**(1,586,375)**	(151,386)	**(2,109,534)**	(610,387)
Number of shares				
Weighted average number of common shares outstanding (1) (2)	**18,622,153**	15,684,204	**18,560,600**	15,581,511
Net income (loss) and comprehensive income per share				
Basic and diluted	**(0.085)**	(0.084)	**0.446**	(0.286)
Net income (loss) per share from continuing operations				
Basic and diluted	**(0.085)**	(0.010)	**(0.114)**	(0.039)

(1) The calculation of the weighted average number of outstanding shares is determined as a function of the number of outstanding common shares based on the fraction of the period during which the shares were outstanding.

(2) The weighted average number of outstanding shares is the same number used in the calculation of the diluted net loss per share since the inclusion of potential common shares, from the exercise of stock options and the conversion of Series A preferred shares, in the calculation of the diluted per share amount of a loss, has no impact.

18. Contingency

In June 2010, Neurostream and its partners were involved in a claim from a former employee for breach of contract. In November 2011, the parties have agreed on terms for the settlement of that claim. Therefore, as of September 30, 2011, the Company recorded its portion of the settlement as professional fees and accrued liabilities.

19. Related party transactions

During the periods, the Company entered into transactions with related parties. These transactions were in the normal course of business, on an arm's length basis, and were measured at the fair value.

These transactions had the following impacts on the net income (loss):

	Three-month periods ended on September 30		**Nine-month periods ended on September 30**	
	2011*	2010	**2011***	2010
	$	$	**$**	$
General and administrative expenses charged:				
from Neurostream	**-**	(2,782)	**(4,333)**	(13,916)
to Neurostream	**-**	1,943	**-**	38,800
	-	(839)	**(4,333)**	24,884

* The Company has not had related party transactions with Neurostream since June 30, 2011 due to the sale of its interest in joint venture.

During the year ended on December 31, 2010, the Company sold property, plant and equipment and software to Neurostream for gross proceeds of $100,000. This transaction was measured at the carrying amounts and the gross proceeds was applied against the amount payable to Neurostream. The excess of the consideration received over the carrying amount is $42,056 on property, plant and equipment and $1,507 on software.

As of financial position dates, the outstanding amounts are $5,834 as of September 30, 2011, $47,521 as of December 31, 2010, and $356,807 as of January 1, 2010, as accounts payable to Neurostream.

20. Transition to IFRS

The Canadian Accounting Standards Board ("AcSB") requires that Canadian publicly accountable entities prepare their financial statements in accordance with IFRS for fiscal years beginning on or after January 1, 2011. As these condensed financial statements represent our initial presentation of our results and financial position under IFRS, they were prepared in accordance with IFRS 1, *First Time Adoption of International Financial Reporting Standards* ("IFRS 1").

IFRS 1 requires retrospective application of all IFRS standards, with certain optional exemptions and mandatory exceptions, which are described further in this Note.

The accounting policies described in Note 3 have been applied consistently to all periods presented in our condensed financial statements with the exception of the optional exemptions elected and the mandatory exceptions required.

As of January 1, 2010 (the "Transition Date"), an opening statement of financial position was prepared under IFRS. Our 2010 annual consolidated financial statements were previously prepared in accordance with Canadian GAAP.

In this Note, our transition to IFRS is explained through the following:

- *A) First time adoption optional exemptions and mandatory exceptions to retrospective application of IFRS*

  This section describes the standards for which IFRS was not applied retrospectively as permitted or required by IFRS 1.

- *B) Reconciliations of equity and comprehensive income from Canadian GAAP to IFRS*

  Quantitative and qualitative explanations are included in this section to explain the differences between Canadian GAAP and IFRS in equity and comprehensive income.

- *C) Reconciliation of consolidated statement of financial position from Canadian GAAP to IFRS*

  This section explains quantitatively and qualitatively the impact and differences between Canadian GAAP and IFRS.

A) First time adoption optional exemptions and mandatory exceptions to retrospective application of IFRS

As previously noted, IFRS 1 requires retrospective application of all IFRS standards with certain optional exemptions and mandatory exceptions. The optional exemptions elected and the mandatory exceptions to retrospective application of IFRS are described below and the quantification of these is discussed in Section B of this Note.

Optional exemptions

Share-based payments

Under IFRS 1, a first-time adopter is encouraged but not required to retrospectively apply IFRS 2, *Share-Based Payment*, to equity instruments arising from share-based payment transactions that were granted and vested prior to the Transition Date. The Company elected to use this exemption and has therefore not applied IFRS 2 to equity-settled transactions settled prior to the Transition Date.

As a result of applying this exemption, the Company will apply the provisions of IFRS 2 only to all outstanding equity instruments that are unvested as at the Transition Date to IFRS.

Business combinations

Under IFRS 1, a first-time adopter is encouraged but not required to retrospectively apply IFRS 3, *Business combinations*, to all past business combinations. The Company elected to use this exemption and has therefore not restated business combinations that took place prior to the Transition Date, which has resulted in no impact on opening figures.

As a result of applying this exemption, the Company will apply the provisions of IFRS 3 prospectively to all business combinations occurring on or after the Transition Date to IFRS.

Mandatory exceptions

Estimates

IFRS 1 requires that estimates under IFRS at the date of transition should be consistent with estimates made for the same date under previous GAAP, after applying any adjustments to reflect differences in accounting policies, unless there is objective evidence that those estimates were made in error.

As such, a first-time adopter cannot use hindsight in order to create or revise any accounting estimates. Estimates made in accordance with IFRS at the Transition Date are consistent with estimates we previously made under Canadian GAAP, except where necessary to reflect any differences in accounting estimates.

B) Reconciliations of total equity and comprehensive income from Canadian GAAP to IFRS

IFRS 1 requires a first-time adopter of IFRS to reconcile shareholders' equity (deficiency), comprehensive income and cash flows for prior periods beginning on the date of transition to IFRS. The Company's first-time adoption of IFRS did not have any material impact on previously reported cash flows from operating activities, financing activities or investing activities. Reconciliations of shareholders' equity as of January 1, 2010, September 30, 2010 and December 31, 2010 and Comprehensive income for the periods ended on September 30, 2010 and for the year ended on December 31, 2010 are provided below.

Reconciliation of equity

The following table reconciles our equity as previously reported under Canadian GAAP to the amounts reported under IFRS as of January 1, 2010, September 30, 2010 and December 31, 2010.

Explanations for each of the adjustments to equity are included in the section that follows the reconciliations.

	Note	January 1, 2010	September 30, 2010	December 31, 2010
Equity (deficiency) as reported under Canadian GAAP (Restated - Note 2)		**$ (20,936)**	**$ (4,443,334)**	**$ (4,778,138)**
Adjustments to total equity under IFRS				
Property, plant & equipment	*a)*	(175,863)	(74,872)	-
Intangible assets	*a)*	(60,566)	(42,901)	-
Share-based payments	*b)*	-	-	-
Preferred shares	*c)*	(46,495)	(49,098)	(43,582)
Total IFRS adjustments to equity		**$ (282,924)**	**$ (166,870)**	**$ (43,582)**
Equity as reported under IFRS		**$ (303,860)**	**$ (4,610,205)**	**$ (4,821,720)**

Reconciliation of comprehensive income

The following table reconciles our comprehensive income as reported under Canadian GAAP to the amounts reported under IFRS for the periods ended on September 30, 2010 and for the year ended on December 31, 2010. Explanations for each of the adjustments to Comprehensive are included in section that follows the reconciliations.

	Note	Three-month period ended September 31, 2010	Nine-month period ended September 31, 2010	Year ended December 31, 2010
Comprehensive Income (Loss) as reported under Canadian GAAP		**$ (1,437,244)**	**$ (4,573,815)**	**(6,023,522)**
Adjustments on Net income				
Amortization of property, plant & equipment	*a)*	(65)	2,888	121,736
Amortization of intangible assets	*a)*	1,438	3,768	26,959
Gain on disposal of property, plant and equipment and intangible assets	*a)*	124,349	124,349	43,564
Share-based payments expense	*b)*	1,672	431	950
Interest on preferred shares	*c)*	820	1,979	2,877
Exchange (gain) loss on the liability component of the preferred shares	*c)*	(2,573)	(5,356)	(6,086)
Total adjustments on Net income		**$ 125,641**	**$ 128,059**	**$ 190,000**
Adjustments on Discontinued Operations				
Amortization of property, plant & equipment	*a)*	(1,718)	(16,576)	54,128
Amortization of intangible assets	*a)*	2,528	4,227	33,606
Total adjustments on Discontinued operations		**$ 810**	**$ (12,349)**	**$ 87,734**
Comprehensive Income under IFRS		**$ (1,310,793)**	**$ (4,458,105)**	**$ (5,745,788)**

Analysis of adjustments to equity and comprehensive income due to the adoption of IFRS

The following section describes the adjustments to equity and comprehensive income shown in the preceding table in further detail.

a) Property, plant & equipment and intangible assets

This adjustment results from a change in accounting policies for property, plant and equipment and intangible assets in connection with the adoption of IAS 16, *Property, Plant and Equipment*, and IAS 38, *Intangible Assets*. The Company has decided to change its former declining-balance method under previous GAAP for the straight-line method under IFRS.

A retrospective application has been made and the balance of deficit as of January 1, 2010 has been adjusted consequently. This adjustment had impacts in 2010, except in the last quarter of 2010. During Q4-2010, under Canadian GAAP, the Company recorded a change in estimate and changed its amortization method from declining-balance method to straight-line method. This change was applied prospectively from January 1, 2010. Therefore, the cumulative adjustment made in Q4-2010 is completely offsetting the adjustment made in 2011 on the 2010 results, as part of the transition to IFRS.

b) Share-based payments

- *Vesting conditions*

Under Canadian GAAP, for share-based awards that vest in installments (i.e., graded vesting), the Company recognized the fair value of the award on a straight-line basis over the underlying vesting period considering one arrangement.

Under IFRS 2, each installment must be accounted for as a separate arrangement with its own distinct fair value measurement. Compensation cost for each tranche is recognized over its own distinct vesting period.

- *Forfeiture rate*

Under Canadian GAAP, forfeitures of awards were not estimated at the date of grant. Instead, the Company recognized compensation expense as though all options would vest and recognized the impact of actual forfeitures as they occurred.

Under IFRS, for vesting conditions other than market conditions, the Company is required to measure the share-based payment transaction based on the best available estimate of the number of equity instruments expected to vest at the end of each reporting period. If subsequent information indicates that initial estimates were not accurate, they should be adjusted prospectively.

The Company has adjusted its opening balance sheet as well as its periodic compensation expense for awards granted prior to the Transition Date for which retrospective application was required in order to reflect the change in policy related to graded vesting and expected forfeitures.

c) Preferred shares – Initial recognition

Under Canadian GAAP, when it initially recognized its preferred shares in June 2009, the Company determined first the fair value of the equity component using the "option pricing model valuation" and determined the carrying amount of the liability component by deducting the fair value of the equity component from the fair value of the compound financial instrument as a whole.

Under IFRS, IAS 32 requires that the issuer of a convertible financial instrument shall first determine the carrying amount of the liability component by measuring the fair value of a similar liability, and then the equity component of the financial instrument.

This difference resulted in calculating new values under IFRS for initial recognition of the liability and equity components, new imputed interests over the periods and restated value of each preferred shares conversion over the periods.

C) Reconciliation of consolidated statement of financial position from Canadian GAAP to IFRS

See table next page.

Notes to Condensed Interim Consolidated Financial Statements
As of September 30, 2011 and December 31, 2010
(unaudited)

(Amounts in Canadian dollars, except as otherwise noted)

Canadian GAAP accounts	Canadian GAAP	IFRS adjustments	IFRS reclassification	IFRS	IFRS accounts
	As of December 31, 2009 (Restated - Note 2)			As of January 1, 2010 (Restated - Note 2)	
	$	$	$	$	
ASSETS					***ASSETS***
Current assets					**Current assets**
Cash	1,110,212	-	-	1,110,212	Cash
Short-term investments	95,196	-	-	95,196	Short-term investments
Accounts receivable	2,239,921	-	-	2,239,921	Accounts receivable
Prepaid expenses	114,553	-	-	114,553	Prepaid expenses
Capital contribution receivable	1,222,222	-	-	1,222,222	Capital contribution receivable
	4,782,104	-	-	4,782,104	
Property, plant and equipment	536,897	(175,863)	-	361,034	Property, plant and equipment
Intangible assets	4,442,761	(60,566)	-	4,382,195	Intangible assets
	4,979,658	(236,429)	-	4,743,229	
	9,761,762	**(236,429)**	**-**	**9,525,333**	
LIABILITIES					***LIABILITIES***
Current liabilities					**Current liabilities**
Demand loan	950,000	-	-	950,000	Demand loan
Accounts payable and accrued liabilities	1,500,038	-	-	1,500,038	Accounts payable and accrued liabilities
	2,450,038	-	-	2,450,038	
Liability component of preferred shares	6,374,413	46,495	-	6,420,908	Liability component of preferred shares
Unrealized gain on assets and liabilities transfer	958,247	-	-	958,247	Unrealized gain on assets and liabilities transfer
	7,332,660	46,495	-	7,379,155	
	9,782,698	**46,495**	**-**	**9,829,193**	
SHAREHOLDERS' EQUITY					**SHAREHOLDERS' EQUITY**
Equity component of preferred shares	2,323,747	(45,477)	-	2,278,270	Equity component of preferred shares
Capital stock	42,391,552	9,060	-	42,400,612	Capital stock
Contributed surplus	10,261,576	(756)	(10,260,820)	-	
	-	-	3,091,190	3,091,190	Reserve – Stock options
	-	-	7,078,882	7,078,882	Reserve – Warrants
	-	-	90,748	90,748	Reserve – Convertible debentures
Deficit	(54,997,811)	(245,751)	-	(55,243,562)	Deficit
	(20,936)	**(282,924)**	**-**	**(303,860)**	
	9,761,762	**(236,429)**	**-**	**9,525,333**	