

# **Victhom Human Bionics inc.**

## **Interim Financial Statements June 30, 2003 and 2002**

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## Earnings and Deficit

Three-month periods ended June 30, 2003 and 2002  
(unaudited)

	Three months ended		Six months ended	
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
			\$	\$
<b>Revenue</b>	<b>908 524</b>		<b>908 524</b>	
<b>Expenses</b>				
Research and development, net	<b>713 910</b>	126 044	<b>1 110 140</b>	188 166
Administrative	<b>415 771</b>	169 218	<b>811 563</b>	294 576
Financial	<b>9 808</b>	46 179	<b>24 216</b>	68 773
	<b>1 139 490</b>	341 441	<b>1 945 919</b>	551 515
<b>Net loss</b>	<b>230 966</b>	341 441	<b>1 037 395</b>	551 515
Deficit, beginning of period	<b>3 068 680</b>	887 121	<b>2 262 251</b>	677 047
Deficit, end of period	<b>3 299 646</b>	1 228 562	<b>3 299 646</b>	1 228 562
Basic and diluted net loss per share	<b>0.008</b>	0.071	<b>0.035</b>	0.115
Weighted average number of common shares outstanding	<b>29 773 333</b>	4 814 400	<b>29 506 666</b>	4 814 400

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

## Victhom Human Bionics Inc.

### Cash Flows

Three-month periods ended June 30, 2003 and 2002  
(unaudited)

	Three months ended		Six months ended	
	2003	2002	2003	2002
			\$	\$
<b>OPERATING ACTIVITIES</b>				
Net loss	(230 966)	(341 441)	(1 037 395)	(551 515)
Non-cash items				
Amortization of property, plant and equipment	42 886	25 533	80 077	49 244
Amortization of investment tax credits	(2 733)	(5 586)	(5 510)	(8 972)
Amortization of financing costs		690	186	5 616
Interest on convertible debentures		16 339		31 197
Changes in working capital items	336 004	(85 631)	(561 053)	(289 497)
Cash flows from operating activities	145 191	(390 096)	(1 523 695)	(763 927)
<b>INVESTING ACTIVITIES</b>				
Advances to a director				8 000
Note receivable from a shareholder				(30 000)
Receipt of a note receivable from a shareholder		4 280		19 280
Term deposits		311 391		319 761
Development costs		(109 520)		(109 520)
Patents	(16 862)		(16 862)	
Property, plant and equipment	(146 697)	(20 706)	(191 677)	(42 444)
Cash flows from investing activities	(163 559)	185 445	(208 539)	165 077
<b>FINANCING ACTIVITIES</b>				
Note payable	160 000	125 000	160 000	187 421
Deposit for share subscription	250 000		250 000	
Long-term debt	33 787	260 000	33 787	260 000
Repayment of long-term debt	(12 236)	(5 258)	(22 298)	(9 884)
Issuance of convertible debenture		160 000		160 000
Repayment of convertible debenture		(13 218)	(200 000)	(13 218)
Issue of shares			2 644 711	
Cash flows from financing activities	431 551	526 524	2 866 199	584 319
<b>Net increase (decrease) in cash</b>	<b>413 182</b>	<b>321 873</b>	<b>1 133 966</b>	<b>(14 531)</b>
Cash, beginning of year	751 318	92 758	30 534	429 162
Cash, end of year	1 164 500	414 631	1 164 500	414 631

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

## Victhom Human Bionics Inc. Balance Sheets

	(Unaudited) June 30, 2003 \$	December 31, 2002 \$
<b>ASSETS</b>		
Current assets		
Cash	1 164 500	30 534
Accounts receivable (Note 7)	1 647 196	1 275 180
Prepaid expenses	18 726	4 625
	<u>2 830 422</u>	<u>1 310 339</u>
Property, plant and equipment (Note 8)	817 758	700 650
Financing costs		34 654
Patents, at cost	53 962	37 381
	<u>3 702 142</u>	<u>2 083 024</u>
<b>LIABILITIES</b>		
Current liabilities		
Accounts payable and accrued liabilities	927 926	1 102 862
Deposit for share subscription	250 000	
Note payable, prime plus 1.75% (Note 9)	650 000	490 000
Instalments on long-term debt	52 778	42 205
Instalments on liability component of convertible debentures		534 896
	<u>1 880 704</u>	<u>2 169 963</u>
Deferred investment tax credits	50 314	55 824
Long-term debt (Note 10)	83 910	77 487
Liability component of convertible debenture (Note 11)		308 425
	<u>2 014 928</u>	<u>2 611 699</u>
<b>SHAREHOLDERS' EQUITY (DEFICIENCY)</b>		
Equity component of convertible debenture (Note 11)		255 048
Capital stock (Note 12)	4 986 860	1 478 528
Deficit	(3 299 646)	(2 262 251)
	<u>1 687 214</u>	<u>(528 675)</u>
	<u>3 702 142</u>	<u>2 083 024</u>

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

On behalf of the Board,

\_\_\_\_\_  
Director

\_\_\_\_\_  
Director

# Victhom Human Bionics Inc.

## Notes to Financial Statements

June 30, 2003 and December 31, 2002

(unaudited)

### 1 - GOVERNING STATUTES AND NATURE OF OPERATIONS

The Company, which is incorporated under the Canada Business Corporations Act, operates a laboratory that conducts human bionics research for the design and development of advanced controllers intended to govern anthropomorphic limbs for amputees or dysmelic individuals.

The Company is considered to be in the start-up stage and will continue to be so until it earns significant revenues. It expects to have additional capital requirements to fully develop and then market its products. Its future ability to generate revenues and cash flows relating to these operating activities depends on several factors, including its ability to obtain additional funding and to have its products accepted on the market.

### 2 - REVERSE TAKEOVER AND MERGER

On January 10, 2003, Victhom Human Bionics Inc. (formerly Begama Technologies Inc.) signed an agreement with Société Victhom Corporation inc. to acquire all of that company's outstanding shares in exchange for the issuance of 19,840,000 common shares of Victhom Human Bionics Inc. This transaction was measured at the exchange amount.

Following this transaction, the shareholders of Société Victhom Corporation inc. own, either directly or indirectly, approximately 85% of the outstanding voting shares of Victhom Human Bionics Inc. This transaction was accounted for as a reverse takeover using the purchase method. These financial statements reflect the accounts of Société Victhom Corporation inc. at their book value since it is deemed to be the purchaser. The assets and liabilities of Victhom Human Bionics Inc. are included in these financial statements. The results of operations of Victhom Human Bionics Inc. have been included in these financial statements since the acquisition date, i.e., January 10, 2003. The amounts reported for periods preceding January 10, 2003 are those of Société Victhom Corporation inc.

The entity's balance sheet immediately following the January 10, 2003 transaction is detailed as follows:

	Société Victhom Corporation inc.	Victhom Human Bionics Inc.	Total
Cash	75 266	4 634	79 900
Current assets	1 216 176	158 758	1 374 934
Property, plant and equipment	696 172		696 172
Other assets	37 351		37 351
Liabilities	1 996 633	195 975	2 192 608
Net assets acquired (net liabilities assumed)	28 332	(32 583)	(4 251)

On January 10, 2003, Société Victhom Corporation and Victhom Human Bionics merged under the name Victhom Human Bionics Inc.

# **Victhom Human Bionics Inc.**

## **Notes to Financial Statements**

June 30, 2003 and December 31, 2002  
(unaudited)

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### **3 - FINANCIAL STATEMENT PRESENTATION**

The attached unaudited financial statements are in accordance with Canadian generally accepted accounting principles applicable to complete financial statements. As necessary, the financial statements include amounts that have been established based on informed estimates and management's best judgement. The operating results for the interim period presented are not necessarily representative of the results that are expected for the year.

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### **4 - ACCOUNTING POLICIES**

#### **Accounting estimates**

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts recorded in the financial statements and notes to financial statements. These estimates are based on management's best knowledge of current events and actions that the Company may undertake in the future. Actual results may differ from those estimates.

#### **Cash and cash equivalents**

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

#### **Revenue**

Pursuant to the marketing agreement signed during the period, the company must reach milestones for the development of its product according to a pre-established schedule and this for the benefit of the third party. The revenue was recognized in the results. The agreement which the Company signed with the client does not set out any repayment terms in the event that the product is not marketed.

#### **Patents**

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

# Victhom Human Bionics Inc.

## Notes to Financial Statements

June 30, 2003 and December 31, 2002  
(unaudited)

### 4 - ACCOUNTING POLICIES (continued)

#### Amortization

Property, plant and equipment are amortized over their estimated useful lives according to the following methods and annual rates:

	<u>Methods</u>	<u>Rates</u>
Computer hardware	Diminishing balance	30%
Furniture and equipment	Diminishing balance	20%
Leasehold improvements	Straight-line	14%

#### Research and development expenses

Research expenses are recorded in earnings in the year in which they are incurred. Development expenses are recorded in earnings in the year in which they are incurred, unless they do not respect the capitalization criteria in accordance with Canadian generally accepted accounting principles.

Investment tax credits relating to research and development expenses are applied against the related expenses in the year during which they are incurred. Credits relating to property, plant and equipment are presented as deferred credits and amortized to earnings as the related property, plant and equipment are amortized.

#### Financing costs

Deferred financing costs relating to the issuance of convertible debentures are amortized on a straight-line basis over the term of the related debenture. In the event that the debentures are converted, the unamortized balance of financing costs will be transferred to capital stock.

#### Stock-based compensation

The Company has a stock-based compensation plan, which is described in Note 17. No compensation expense is recognized when shares or stock options are issued to employees. Any consideration paid by employees on exercise of stock options or purchase of stock is credited to share capital. If shares or options are repurchased from employees, the excess of the consideration paid over the carrying amount of the share or stock option cancelled is charged to retained earnings.

# Victhom Human Bionics Inc.

## Notes to Financial Statements

June 30, 2003 and December 31, 2002  
(unaudited)

### 4 - ACCOUNTING POLICIES (continued)

#### Earnings per share

Basic earnings per common share is 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 giving effect to the potential dilution that could occur if securities or other contracts to issue common shares were exercised or converted to such shares at the later of the beginning of the period or the issuance date. The treasury stock method is used to determine the dilutive effect of stock options, warrants and convertible debentures. The treasury stock method assumes that proceeds received from the exercise of in-the-money stock options, share purchase warrants and convertible debentures are used to repurchase the common shares at the average market price during the period.

The convertible debentures discussed in note 11 and the stock options referred to in note 16 have not been included in calculating the diluted earnings per share for the quarters ended June 30, 2003 and 2002 respectively, since the Company has reported losses and including these securities would be anti-dilutive.

#### Income taxes

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

### 5 - INFORMATION INCLUDED IN THE STATEMENT OF EARNINGS

	2003	2002
	\$	\$
Interest income on investments	(4 767)	
Research and development costs	1 515 429	
Research and development tax credits	(399 779)	
Amortization of investment tax credits	(5 510)	(5 586)
Amortization of property, plant and equipment	80 077	25 533
Amortization of financing costs	186	690
Interest on long-term debt	8 555	

# Victhom Human Bionics Inc.

## Notes to Financial Statements

June 30, 2003 and December 31, 2002  
(unaudited)

### 6 - INCOME TAXES

The Company's effective income tax rate differs from the combined federal and provincial income tax rate in Canada.

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

	<b>June 30, 2003</b>	December 31, 2002
	\$	\$
Future income tax assets:		
Non-capital losses	616 000	465 000
Research and development expenses	560 000	363 000
	<u>1 176 000</u>	<u>828 000</u>
Future income tax liabilities		
Property, plant and equipment and other assets	324 000	113 000
	<u>852 000</u>	<u>715 000</u>
Valuation allowance	<u>(852 000)</u>	<u>(715 000)</u>
Net future income tax assets recorded	<u>—</u>	<u>—</u>

The future income tax asset resulting from operating losses is not recorded in the financial statements. These losses, which are available to reduce income taxes in future years, aggregate \$1,907,682 for federal purposes and \$2,074,966 for provincial purposes and are detailed as follows:

	Federal	Provincial
	\$	\$
Amount of loss carry-forwards expiring within the following years:		
2006		3 483
2007	56 726	56 334
2008	397 081	400 796
2009	1 326 473	1 325 788
2010	105 405	105 393
	<u>1 885 685</u>	<u>1 891 794</u>
Portion of tax losses relating to temporary differences	<u>869 869</u>	<u>1 487 801</u>
	<u>1 015 816</u>	<u>403 993</u>
Research and development expenses which can be carried forward indefinitely	891 866	1 670 973
	<u>1 907 682</u>	<u>2 074 966</u>

In addition, the Company has investment tax credits totalling approximately \$105,000 which are available until 2012.

## Victhom Human Bionics Inc.

### Notes to Financial Statements

June 30, 2003 and December 31, 2002  
(unaudited)

#### 7 - ACCOUNTS RECEIVABLE

	June 30, 2003	December 31, 2002
	\$	\$
Investment tax credits receivable <sup>(1)</sup>	1 543 519	1 143 811
Other	103 677	131 369
	<u>1 647 196</u>	<u>1 275 180</u>

<sup>(1)</sup> The investment tax credits receivable recorded by the Company must be examined and approved by the tax authorities and it is possible that the amounts granted will differ from the amounts recorded.

#### 8 - PROPERTY, PLANT AND EQUIPMENT

	2002		
	Cost	Accumulated amortization	Net
	\$	\$	\$
Computer hardware	63 439	13 773	49 666
Furniture and equipment	535 705	137 233	398 472
Leasehold improvements	137 572	4 893	132 679
Assets under capital lease			
Computer hardware	98 497	28 021	70 476
Furniture and equipment	50 680	1 323	49 357
	<u>885 893</u>	<u>185 243</u>	<u>700 650</u>

#### 9 - NOTE PAYABLE

The investment tax credits receivable are pledged to secure the note payable. The Company has issued a hypothec totalling \$780,000 which is secured by present and future accounts receivable.

#### 10 - LONG-TERM DEBT

	2002
	\$
Obligations under capital leases, rates varying between 9.11% and 20.03%, payable in monthly instalments, maturing on different dates until 2006	119 692
Instalments due within one year	42 205
	<u>77 487</u>

## Victhom Human Bionics Inc.

### Notes to Financial Statements

June 30, 2003 and December 31, 2002  
(unaudited)

#### 10 - LONG-TERM DEBT (continued)

The instalments on long-term debt for the next years are as follows:

	\$
2003	55 131
2004	41 782
2005	24 142
2006	13 826
2007	12 946
Total minimum lease payments	<u>147 827</u>
Amounts included in minimum lease payments	
Interest expense	<u>28 135</u>
	<u><u>119 692</u></u>

#### 11 - CONVERTIBLE DEBENTURE

The following table illustrates variations in the two interim periods:

	Liability component	Equity component
		\$
Balance as at January 1, 2002	287 363	102 273
Increase in imputed interest on debentures	<u>14 858</u>	
Balance as at March 31, 2002	<u>302 221</u>	<u>102 273</u>
Issue of a convertible debenture - Société Innovatech	197 823	62 177
Issue of convertible debentures - other investors	112 200	47 800
Issue of convertible debenture - Société Innovatech	157 203	42 798
Increase in imputed interest on debentures	<u>73 874</u>	
Balance as at December 31, 2002	<u>843 321</u>	<u>255 048</u>
Instalment on debentures	(166 506)	
Conversion of debentures into common shares	<u>(676 815)</u>	<u>(255 048)</u>
<b>Balance as at June 30, 2003</b>	<u><u>-</u></u>	<u><u>-</u></u>

The liability component of convertible debentures corresponds to the discounted value, at the date of issuance of cash payments of principal and interest due in accordance with the terms and conditions of the convertible debentures, discounted at the interest rate which would apply to a debt security, with no conversion option, with comparable risks and a comparable maturity date. The equity component, which represents the value assigned to the holders' options to convert the principal balance into common shares, is calculated as being the difference between the amount issued and the liability component.

# Victhom Human Bionics Inc.

## Notes to Financial Statements

June 30, 2003 and December 31, 2002  
(unaudited)

### 12 - CAPITAL STOCK

After the filing of the articles of amalgamation during the period, the Company's capital stock is as follows:

#### Authorized

Unlimited number of common shares without par value, voting and participating

#### Issued and fully paid

The following table illustrates changes in the Company's capital stock during the two interim periods:

	<u>Number</u>	<u>Amount</u> \$
Balance as at December 31, 2002	4 814 400	1 478 528
Conversion of convertible debentures, net of costs	913 600	897 397
Adjustment to reflect the reverse takeover		
Shares of Société Victhom Corporation inc.	(5 728 000)	-
Shares of Victhom Human Bionics Inc.	3 933 333	-
Issue of shares at the date of the reverse takeover	19 840 000	347 611
	<u>23 773 333</u>	<u>2 723 536</u>
Issue of shares following a public offering, net of related costs		
First portion on January 10, 2003	4 800 000	1 714 324
Second portion on February 17, 2003	1 200 000	549 000
	<u>6 000 000</u>	<u>2 263 324</u>
<b>Balance as at June 30, 2003</b>	<u><u>29 773 333</u></u>	<u><u>4 986 860</u></u>

### 13 - RELATED PARTY TRANSACTIONS

The Company carried out the following transactions with certain directors and shareholders in the normal course of operations:

	<u>June 30,</u> <u>2003</u> \$	<u>June 30,</u> <u>2002</u> \$
Professional fees paid to a company owned by a shareholder	<u><u>135 000</u></u>	<u><u>78 500</u></u>

These transactions were recorded at the exchange amount, which is the amount established and accepted by the parties.

## Victhom Human Bionics Inc.

### Notes to Financial Statements

June 30, 2003 and December 31, 2002  
(unaudited)

#### 14 - COMMITMENT

The Company has signed two agreements with Corporation de l'École Polytechnique de Montréal to take part in the following projects:

	Agreement	Commitment as at June 30, 2003
	\$	\$
Assessment and characterization of materials which could be used to design artificial muscle - project ending in September 2003	339 407	269 271
Research and development work regarding a neuroelectronic sensor for an anthropomorphic leg - project ending in August 2005	949 000	279 000
	<u>1 288 407</u>	<u>548 271</u>

The minimum payments to be made for these contracts in the next three years total \$244,136 in 2003, \$268,000 in 2004 and \$228,000 in 2005.

#### 15 - FAIR VALUE OF FINANCIAL INSTRUMENTS

Cash, term deposits, accounts receivable, accounts payable and accrued liabilities and the note payable are financial instruments whose fair value approximates their carrying amount given that they will mature shortly.

The fair value of long-term debt has been determined by discounting cash flows under the contracts using the market interest rate at the balance sheet date for similar loans. The fair value of the debt approximates carrying amount.

#### 16 - SUBSEQUENT EVENT

On July 10, 2003, the Company completed a private placement of \$3,250,000, which is equivalent to \$0.90 per unit. Each unit is composed of one common share and one-half of a warrant. Each warrant confers upon the holder the right to acquire one common share of the Company for \$1.35 and can be exercised at any time 18 months following the closing of the private placement. The investment is detailed as follows:

- (a) \$500,000 is injected in the form of an expansion loan
- (b) 3,055,558 units were issued for \$0.90 for an investment of \$2,750,000

## Victhom Human Bionics Inc.

### Notes to Financial Statements

June 30, 2003 and December 31, 2002  
(unaudited)

#### 17 - STOCK-BASED COMPENSATION

The stock options granted by the Company varied as follows:

	Vesting date	Expiry date	Options	Weighted average exercise price \$
Outstanding as at June 30, 2002			570 000	0.15
Granted				
Jan. 10, 2003	Jan. 10, 2003	Feb. 10, 2005	193 306	0.50
Jan. 10, 2003	Jan. 10, 2003	March 19, 2008	1 910 000	0.53
Feb. 13, 2003	Feb. 13, 2003	Feb. 13, 2005	45 000	0.50
March 19, 2003	March 19, 2003	March 19, 2008	128 200	0.90
April 28, 2003	April 28, 2003	April 28, 2008	15 000	0.82
May 2, 2003	May 2, 2003	May 2, 2008	50 000	0.83
Outstanding as at June 30, 2003			<u>2 911 506</u>	<u>0.48</u>
Exercisable options at the end of the period			<u>570 000</u>	<u>0.15</u>

The Company does not record any compensation expense in earnings when options are granted. If the compensation expense for the stock options granted had been determined using the fair value-based method at the grant date, the net loss and net loss per share figures for the period ended June 30, 2003 would have been the following pro-forma amounts:

	\$
Net loss	
Reported	1 037 395
Pro-forma	1 118 287
Net loss and diluted net loss per share	
Reported	0.035
Pro-forma	0.038