

Victhom Human Bionics Inc.

Interim Financial Statements September 30, 2003 and 2002

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Victhom Human Bionics Inc. Earnings and Deficit

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

	Three months ended		Nine months ended	
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
			\$	\$
Revenue	913 110		1 821 634	
Expenses				
Research and development, net	601 976	111 241	1 712 117	299 407
Administrative	380 875	173 951	1 192 437	468 527
Financial	16	35 355	24 232	104 128
	982 867	320 547	2 928 786	872 062
Net loss	69 757	320 547	1 107 152	872 062
Deficit, beginning of period	3 299 646	1 228 562	2 262 251	677 047
Deficit, end of period	3 369 403	1 549 109	3 369 403	1 549 109
Basic and diluted net loss per share	0.002	0.067	0.036	0.181
Weighted average number of common shares outstanding	32 301 461	4 814 400	30 484 313	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 September 30, 2003 and 2002

(unaudited)

	Three months ended		Nine months ended	
	2003	2002	2003	2002
			\$	\$
OPERATING ACTIVITIES				
Net loss	(69 757)	(320 547)	(1 107 152)	(872 062)
Non-cash items				
Amortization of property, plant and equipment	51 797	27 232	131 874	76 476
Amortization of investment tax credits	(2 733)	(5 543)	(8 243)	(14 515)
Amortization of financing costs		(3 543)	186	2 073
Interest on convertible debentures		27 563		58 760
Changes in working capital items	(594 857)	315 230	(1 155 910)	25 733
Cash flows from operating activities	(615 550)	40 392	(2 139 245)	(723 535)
INVESTING ACTIVITIES				
Advances to a director				8 000
Note receivable from a shareholder				(30 000)
Receipt of a note receivable from a shareholder				19 280
Term deposits				319 761
Development costs		(23 977)		(133 497)
Patents	(76 146)		(92 727)	
Property, plant and equipment	(244 807)	(121 086)	(436 484)	(163 530)
Cash flows from investing activities	(320 953)	(145 063)	(529 211)	20 014
FINANCING ACTIVITIES				
Note payable	(250 722)	(120 000)	(90 722)	67 421
Deposit for share subscription	(250 000)			
Long-term debt	21 242		55 029	
Repayment of long-term debt	(14 387)	(5 196)	(36 686)	(15 080)
Issuance of convertible debenture				420 000
Repayment of convertible debenture			(200 000)	(13 218)
Deferred investment tax credits		4 725		4 725
Issue of shares	2 377 268		5 021 699	
Cash flows from financing activities	1 883 401	(120 471)	4 749 320	463 848
Net increase (decrease) in cash	946 898	(225 142)	2 080 864	(239 673)
Cash, beginning of period	1 164 500	414 631	30 534	429 162
Cash, end of period	2 111 398	189 489	2 111 398	189 489

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

Victhom Human Bionics Inc. Balance Sheets

	(Unaudited) September 30, 2003	December 31, 2002
	\$	\$
ASSETS		
Current assets		
Cash	2 111 398	30 534
Accounts receivable (Note 7)	1 702 859	1 275 180
Prepaid expenses	15 597	4 625
	<u>3 829 854</u>	<u>1 310 339</u>
Property, plant and equipment (Note 8)	1 005 260	700 650
Financing costs		34 654
Patents, at cost	130 108	37 381
	<u>4 965 222</u>	<u>2 083 024</u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	385 603	1 102 862
Note payable, prime plus 1.75% (Note 9)	399 278	490 000
Instalments on long-term debt	52 331	42 205
Instalments on liability component of convertible debentures		534 896
	<u>837 212</u>	<u>2 169 963</u>
Deferred investment tax credits	47 581	55 824
Long-term debt (Note 10)	85 704	77 487
Liability component of convertible debenture (Note 11)		308 425
	<u>970 497</u>	<u>2 611 699</u>
SHAREHOLDERS' EQUITY (DEFICIENCY)		
Equity component of convertible debenture (Note 11)		255 048
Capital stock (Note 12)	7 364 128	1 478 528
Deficit	(3 369 403)	(2 262 251)
	<u>3 994 725</u>	<u>(528 675)</u>
	<u>4 965 222</u>	<u>2 083 024</u>

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

On behalf of the Board,

/s/ Benoit Côte
Director

/s/ Preston J. Maddin
Director

Victhom Human Bionics Inc.

Notes to Financial Statements

September 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 developemnt 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 the 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 liabilites assumed)	28 332	(32 583)	(4 251)

2- REVERSE TAKEOVER AND MERGER (Continued)

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

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(unaudited)

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.

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

Under a marketing agreement concluded during the previous period, the Company has to reach development objectives for its products based on a set schedule to the benefit of a third party. The revenue was recognized in the earnings. The agreement signed does not contain repayment terms if 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

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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. The tax credits for current periods have to be examined and approved by the tax authorities and the amounts granted may differ from amounts recorded.

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 16. 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

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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 the 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 September 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 taxes 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

	<u>2003</u>	<u>2002</u>
	\$	\$
Interest income on investments	20 030	6 283
Research and development expenses	2 428 459	1 043 129
Research and development tax credits	(708 099)	(729 207)
Amortization of tax credits	(8 243)	(14 515)
Amortization of plant, property and equipment	131 874	76 476
Amortization of financing expenses	186	2 073
Interest on long-term debt	12 900	51 756

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Notes to Financial Statements

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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:

	September 30, 2003	December 31, 2002
	<u>\$</u>	<u>\$</u>
Future income tax assets:		
Non-capital losses	559 000	465 000
Research and developemnt expenses	343 000	363 000
	<u>902 000</u>	<u>828 000</u>
Future income tax liabilities:		
Property, plant and equipment and other assets	122 000	113 000
	<u>780 000</u>	<u>715 000</u>
Valuation allowance	<u>(780 000)</u>	<u>(715 000)</u>
Net future income tax assets recorded	<u><u>—</u></u>	<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 \$1,747,758 for federal purposes and \$1,915,042 for provincial purposes and are detailed as follows:

	<u>Federal</u>	<u>Provincial</u>
	<u>\$</u>	<u>\$</u>
Amounts of loss carry-forwards expiring within the following years:		
2006		3 483
2007	56 726	56 334
2008	397 081	400 796
2009	1 184 465	1 183 780
2010	87 489	87 477
	<u>1 725 761</u>	<u>1 731 870</u>
Portion of tax losses relating to temporary differences	869 869	1 487 801
	<u>855 892</u>	<u>244 069</u>
Research and development expenses which can be carried forward indefinitely	891 866	1 670 973
	<u>1 747 758</u>	<u>1 915 042</u>

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

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Notes to Financial Statements

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7 - ACCOUNTS RECEIVABLE

	September 30, 2003	December 31, 2002
	<u>\$</u>	<u>\$</u>
Investment tax credits receivable	1 311 201	1 143 811
Subscription receivable	250 000	
Other	141 658	131 369
	<u>1 702 859</u>	<u>1 275 180</u>

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>

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Notes to Financial Statements

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(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 expenses	<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
Issue of a convertible debenture - Société Innovatech	197 823	62 177
Issue of convertible debentures - other investors	112 200	47 800
Increase in imputed interest on debentures	58 760	
Balance as at September 30, 2002	<u>656 146</u>	<u>212 250</u>
Issue of a convertible debenture - Société Innovatech	157 203	42 798
Increase in imputed interest on debentures	29 972	
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>
Balance as at September 30, 2003	<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

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(unaudited)

12 - CAPITAL STOCK

Subsequent to the filing of 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
Third portion on July 10, 2003	2 777 778	2 276 268
Exercise of option on September 11, 2003	220 000	33 000
Exercise of option on September 18, 2003	5 000	4 000
Exercise of option on September 22, 2003	10 000	8 000
Exercise of option on September 23, 2003	70 000	56 000
	<u>9 082 778</u>	<u>4 640 592</u>
Balance as at September 30, 2003	<u><u>32 856 111</u></u>	<u><u>7 364 128</u></u>

13 - RELATED PARTY TRANSACTIONS

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

	September 30, 2003	September 30, 2002
	<u>\$</u>	<u>\$</u>
Professional fees paid to a company owned by a shareholder	<u><u>135 000</u></u>	<u><u>123 500</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

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14 - COMMITMENT

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

	<u>Agreement</u>	<u>Commitment as at September 30, 2003</u>
	\$	\$
Assessment and characterization of materials which could be used to design artificial muscle - project ending in September 2003	339 407	312 407
Research and development work regarding a neuroelectronic sensor for an anthropomorphic leg - project ending in August 2005	949 000	413 000
	<u>1 288 407</u>	<u>725 407</u>

The minimum payments to be made for these contracts in the next three years total \$67,000 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 its carrying amount.

Victhom Human Bionics Inc.

Notes to Financial Statements

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16 - STOCK-BASED COMPENSATION

The stock options granted the Company varied as follows:

	Vesting date	Expiry date	Options	Weighted average exercise price \$
Outstanding as at September 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, 2008	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
July 22, 2003	July 22, 2003	July 22, 2008	40 000	0.86
July 23, 2003	July 23, 2003	July 23, 2008	25 000	0.90
August 12, 2003	August 12, 2003	August 12, 2008	30 000	0.88
September 9, 2003	September 9, 2003	2008	90 000	1.29
			<u>2 526 506</u>	<u>0.59</u>
Exercised			(220 000)	0.15
			(85 000)	0.80
			<u>2 791 506</u>	<u>0.53</u>
Outstanding as at September 30, 2003			<u>2 791 506</u>	<u>0.53</u>
Exercisable options at the end of the period			<u>350 000</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 September 30, 2003, would have been the following pro-forma amounts:

	\$
Net loss	
Reported	1 107 152
Pro forma	1 369 098
Net loss and diluted net loss per share	
Reported	0.036
Pro forma	0.045