

## **Victhom Human Bionics Inc.**

### **Interim Financial Statements as at March 31, 2004 and 2003**

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## Victhom Human Bionics Inc.

### Earnings

Three-month periods ended March 31  
(unaudited)

	<u>2004</u>	<u>2003</u>
	\$	\$
<b>Revenue</b>	<u>902,394</u>	-----
<b>Expenses</b>		
Research and development expenses, net	1,005,852	396,230
Business development expenses	90,059	148,124
Administrative expenses	660,336	247,667
Financial expenses	37,305	14,408
	<u>1,793,552</u>	<u>806,429</u>
<b>Net loss</b>	<u>891,158</u>	<u>806,429</u>
Weighted average number of shares outstanding	<u>34,552,720</u>	<u>28,654,232</u>
Net loss per share		
Basic and diluted loss per share	<u>0.026</u>	<u>0.028</u>

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

## Victhom Human Bionics Inc.

### Contributed Surplus and Deficits

Three-month periods ended March 31

(unaudited)

	<u>2004</u>	<u>2003</u>
	\$	\$
<b>CONTRIBUTED SURPLUS</b>		
Balance, beginning of period	<b>800,000</b>	
Warrants issued within the private placement (Note 9)	<b>1,102,500</b>	
Stock-based compensation (Note 12)	<b>205,035</b>	
Balance, end of period	<b><u>2,107,535</u></b>	
<b>DEFICITS</b>		
Balance, beginning of period	<b>(6,348,543)</b>	(2,262,251)
Net loss	<b>(891,158)</b>	(806,429)
Balance, end of period	<b><u>(7,239,701)</u></b>	<b><u>(3,068,680)</u></b>

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

## Victhom Human Bionics Inc.

### Cash Flows

Three-month periods ended March 31

(unaudited)

	<u>2004</u>	<u>2003</u>
	\$	\$
<b>OPERATING ACTIVITIES</b>		
Net loss	(891,158)	(806,429)
Non-cash items		
Stock-based compensation (Note 12)	280,000	
Amortization of property, plant and equipment	80,686	37,191
Amortization of investment tax credits	(2,138)	(2,777)
Amortization of financing costs		186
Interest on convertible debentures	24,620	
Changes in working capital items	<u>(1,653,580)</u>	<u>(897,057)</u>
Cash flows from operating activities	<u>(2,161,570)</u>	<u>(1,668,885)</u>
<b>INVESTING ACTIVITIES</b>		
Property, plant and equipment	(195,171)	(44,980)
Other assets	<u>(22,491)</u>	
Cash flows from investing activities	<u>(217,662)</u>	<u>(44,980)</u>
<b>FINANCING ACTIVITIES</b>		
Long-term debt	66,057	
Repayment of long-term debt	(69,136)	(10,062)
Repayment of convertible debentures		(200,000)
Issue of shares	<u>10,636,923</u>	<u>2,644,711</u>
Cash flows from financing activities	<u>10,633,844</u>	<u>2,434,649</u>
<b>Net increase in cash and cash equivalent</b>	<u>8,254,612</u>	<u>720,784</u>
Cash and cash equivalent, beginning of period	<u>2,049,472</u>	<u>30,534</u>
Cash and cash equivalent, end of period	<u><u>10,304,084</u></u>	<u><u>751,318</u></u>

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

## Victhom Human Bionics Inc. Balance Sheets

	(unaudited) March 31, 2004 \$	December 31, 2003 \$
<b>ASSETS</b>		
Current assets		
Cash and cash equivalent	10,304,084	2,049,472
Accounts receivable (Note 7)	2,534,519	1,240,718
Prepaid expenses	5,189	9,919
	<u>12,843,792</u>	<u>3,300,109</u>
Investments, at cost (Note 8)	1,047,035	1,047,035
Property, plant and equipment	1,505,815	1,391,330
Patents, at cost	207,365	184,874
	<u>15,604,006</u>	<u>5,923,348</u>
<b>LIABILITIES</b>		
Current liabilities		
Accounts payable and accrued liabilities	797,933	1,162,443
Instalments on long-term debt	198,342	267,478
Instalments on liability component of convertible debentures	34,192	
	<u>1,030,466</u>	<u>1,429,921</u>
Deferred investment tax credits	42,758	44,896
Long-term debt	1,398,737	1,332,680
Liability component of convertible debentures	890,000	899,572
	<u>3,361,962</u>	<u>3,707,069</u>
<b>SHAREHOLDERS' EQUITY</b>		
Equity component of convertible debentures	110,000	110,000
Capital stock (Note 9)	17,264,210	7,654,822
Contributed surplus	2,107,535	800,000
Deficits	(7,239,701)	(6,348,543)
	<u>12,242,044</u>	<u>2,216,279</u>
	<u>15,604,006</u>	<u>5,923,348</u>

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

On behalf of the board,

/s/ Benoit Côte  
President and Chief Executive  
Officer

/s/ Nitin Kaushal  
Director

# **Victhom Human Bionics Inc.**

## **Notes to Financial Statements**

As at March 31, 2004 and December 31, 2003  
(unaudited)

### **1 - GOVERNING STATUTES AND NATURE OF OPERATIONS**

The Company, incorporated under the Canada Business Corporations Act, operates a laboratory that conducts human bionics research for the design and development of prosthetics products, neuroelectronic devices, biomaterials and entirely biocompatible active materials, to improve the quality of life of people suffering from physical dysfunctions.

The Company is considered to be in the start-up stage and will continue to be a start-up until it earns substantial revenues. The Company expects additional capital requirements to complete the development and marketing of its products. Its ability to generate future revenues and cash flows from its operating activities depends on several factors, including its ability to secure additional financing and to have its products accepted on the market.

### **2 - FINANCIAL STATEMENT PRESENTATION**

The accompanying unaudited financial statements are in accordance with Canadian generally accepted accounting principles for interim financial statements and do not include all the information required in complete financial statements. As necessary, the financial statements include amounts based on informed estimates and management's best judgement. The results of operations for the interim period presented are not necessarily representative of expected results for the year.

### **3 - 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 these 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 recognition**

By virtue of a marketing agreement signed during fiscal 2003, the Company must attain development objectives for its products based on a pre-determined timetable to the benefit of the third party. Revenue was recognized in the statement of earnings. The agreement does not indicate any terms of repayment in the event that the product is not marketed.

#### **Foreign currency translation**

Monetary assets and liabilities in foreign currency are translated at the exchange rate in effect at the balance sheet date and non monetary assets and liabilities are translated at the exchange rates in effect at transaction dates. Revenue and expenses in foreign currency are translated at the average rate in effect during the year. Gains and losses are included in the earnings for the year.

## Victhom Human Bionics Inc.

### Notes to Financial Statements

As at March 31, 2004 and December 31, 2003  
(unaudited)

#### 3 - ACCOUNTING POLICIES (Continued)

##### Stock-based compensation

The Company provides a stock-option plan, which is described in Note 12. A profit-sharing expense is recognized with respect to this plan for stock options issued on or after January 10, 2003 for employees. Any consideration paid by employees when exercising stock option is credited to capital stock. If employees redeem stock options, the surplus of the consideration paid over the book value of the cancelled stock-option is charged to retained earnings.

##### 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 are calculated giving effect to the potential dilution that would occur if securities or other contracts to issue common shares were exercised or converted to common shares at the later of beginning of the year of the issuance date. The treasury stock method is used to determine the dilutive effect of stock options. The treasury stock method assumes that proceeds received from the exercise of in-the-money stock options are used to repurchase common shares at the average market price during the period.

The convertible debentures were not included in the computations of diluted earnings per share for the quarters ended March 31, 2004 and 2003 because the Company reported losses and the inclusion of the securities would be anti-dilutive.

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

	March 31, 2004	March 31, 2003
	\$	\$
Interest of investments	(8,453)	(662)
Research and development expenses	1,269,970	563,306
Research and development tax credits	(373,669)	(164,299)
Amortization of investment tax credits	(2,138)	(2,777)
Amortization of property, plant and equipment	80,686	37,191
Amortization of financing costs		186
Interest on long-term debt and convertible debentures	71,751	3,851
Exchange loss	(27,310)	404
Stock-based compensation (Note 12)	280,000	

#### 5 - INFORMATION INCLUDED IN THE STATEMENT OF CASH FLOWS

Cash flows from non-monetary financing activities are detailed as follows :

	March 31, 2004	March 31, 2003
	\$	\$
Issue of shares, less financing expenses, requiring:		
Contributed surplus related to options exercised	(74,965)	
Contributed surplus related to warrants issued within the private placement	1,102,500	

## Victhom Human Bionics Inc.

### Notes to Financial Statements

As at March 31, 2004 and December 31, 2003  
(unaudited)

#### 6 - INCOME TAXES

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

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

	<b>March 31, 2004</b>	December 31, 2003
	<u>\$</u>	<u>\$</u>
Future income taxes assets		
Non-capital losses	772,000	819,000
Research and development expenses	<u>1,419,000</u>	<u>1,337,000</u>
	2,191,000	2,156,000
Future income tax liabilities		
Property, plant and equipment	<u>271,000</u>	<u>343,000</u>
	1,920,000	1,813,000
Valuation allowance	<u>(1,920,000)</u>	<u>(1,813,000)</u>
Net future income taxes	<u>          -</u>	<u>          -</u>

The future income tax asset resulting from loss carry-forwards is not recorded in the financial statements. These losses and deductible temporary differences, which are available to reduce income taxes in future years, aggregate \$1,630,000 for federal tax purposes and \$1,579,000 for provincial tax purposes and are detailed as follows :

	Federal	Provincial
	<u>\$</u>	<u>\$</u>
Amount of losses for tax purposes carried forward until 2010	1,630,000	1,579,000
Eligible research and development expenses to be deferred over an undetermined period	<u>4,160,000</u>	<u>5,603,000</u>
	<u>5,790,000</u>	<u>7,182,000</u>

In addition, the Company has investment tax credits amounting to approximately \$104,000 which are available until 2012.

#### 7 - ACCOUNTS RECEIVABLE

	<b>March 31, 2004</b>	December 31, 2003
	<u>\$</u>	<u>\$</u>
Investment tax credits receivable	<b>1,347,539</b>	973,870
Consumption taxes	<b>150,028</b>	192,622
Licensing receivables	<b>885,134</b>	
Advance to a company related to a former director, 10%	<b>30,000</b>	30,000
Others	<u><b>121,818</b></u>	<u>44,226</u>
	<u><b>2,534,519</b></u>	<u>1,240,718</u>

The investment tax credits receivable recorded by the Company, for the period ended March 31, 2004 and December 31, 2003, must be examined and approved by the tax authorities. Accordingly, the amounts granted may differ from the amounts recorded.

## Victhom Human Bionics Inc.

### Notes to Financial Statements

As at March 31, 2004 and December 31, 2003  
(unaudited)

#### 8 - INVESTMENTS, AT COST

	<u>March 31, 2004</u>	<u>December 31, 2003</u>
	\$	\$
Term deposit, bearing interest at 2.5%, maturing in June 2005, allocated to the long-term debt security	1,000,000	1,000,000
Note receivable from a company related to a former director, 10%, without repayment terms	47,035	47,035
	<u>1,047,035</u>	<u>1,047,035</u>

#### 9 - CAPITAL STOCK

##### Authorized

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

##### Issued and Fully Paid

The following table indicates changes in the Company's capital stock during the periods:

	<u>Number</u>	<u>Amount</u>
		\$
Balance as at December 31, 2002	4,814,400	1,478,528
Conversion of convertible debentures, less expenses	913,600	897,397
Adjustment to reflect the reverse takeover	18,045,333	347,611
Shares issued following an initial public offering, less expenses	<u>6,000,000</u>	<u>2,263,324</u>
Balance as at March 31, 2003	<u>29,773,333</u>	<u>4,986,860</u>
Shares issued following an initial public offering, less expenses	2,777,779	2,026,266
Options exercised	234,444	40,655
Warrants exercised	438,800	351,041
Subscribed shares to be issued	<u>277,778</u>	<u>250,000</u>
Balance as at December 31, 2003	<u>33,502,134</u>	<u>7,654,822</u>
Private placement, March 25, 2004	7,910,787	8,870,983
Options exercised	299,584	227,428
Warrants exercised	634,233	510,977
	<u>8,844,604</u>	<u>9,609,388</u>
<b>Balance as at March 31, 2004</b>	<u><b>42,346,738</b></u>	<u><b>17,264,210</b></u>

## Victhom Human Bionics Inc. Notes to Financial Statements

As at March 31, 2004 and December 31, 2003  
(unaudited)

### 9 - CAPITAL STOCK (Continued)

#### Warrants

The fair value of each warrant granted was estimated at the grant date using the Black-Scholes option pricing model, based on the following weighted average data: expected volatility of 60% to 106%, risk-free interest rate of 2.25% to 3.88%, no dividend expected for one year.

Outstanding warrants at the end of the period as well as cost variances are summarized in the table below:

	Number	Weighted average exercise price 2004
		\$
Outstanding, as at March 31, 2003 and December 31, 2002		
Granted	5,107,778	0.95
Exercised	(438,800)	0.80
Outstanding, as at December 31, 2003	4,668,978	0.96
Granted	4,192,723	1.85
Exercised	(634,233)	0.80
<b>Outstanding, as at March 31, 2004</b>	<b>8,227,468</b>	<b>1.43</b>

### 10 - RELATED PARTY TRANSACTIONS

The Company carried out the following related party transactions with two directors.

	March 31, 2004	March 31, 2003
	\$	\$
Expenses		
Professional fees paid, under agreements concluded since January 2001, to two entities held by directors	50,800	109,300

These transactions were accounted for at the exchange amount, which is the consideration established and agreed upon by the parties.

### 11 - COMMITMENTS

The Company has entered into a lease, expiring on September 30, 2009, which calls for payment of \$974,192 for the rental of premises. Minimum payments during the current period and the next years amount to \$137,774 in 2004 and \$176,088 in 2005, 2006, 2007 and 2008.

## Victhom Human Bionics Inc.

### Notes to Financial Statements

As at March 31, 2004 and December 31, 2003  
(unaudited)

#### 11 - COMMITMENTS (Continued)

The Company has entered into two agreements with «La Corporation de l'École Polytechnique de Montréal» to participate in the following projects:

	Agreements	Entered into March 31, 2004	Entered into December 31, 2003
	\$	\$	\$
Research and development of a neuroelectrical measuring system for an antropomorphic limb, ending in August 2005	949,000	<b>614,000</b>	480,000
Intelligent medical devices (IMD), ending in April 2004	140,000	<b>140,000</b>	100,000
	<u>1,089,000</u>	<u><b>754,000</b></u>	<u>580,000</u>

Minimum payments under these agreements during the next years amount to \$134,000 in 2004 and \$201,000 in 2005.

In December 2003, the Company signed a cooperative agreement with «Université de Sherbrooke» regarding experimental research on animals. For the current period, no research has been required and no amount has been recorded relating to this agreement.

#### 12 - STOCK-BASED COMPENSATION

The Company has established a stock option plan whereby the Board of Directors may grant stock options to directors, executive officers, key employees and consultants providing services to the Company. The Board of Directors determines, at its discretion, the vesting terms, if applicable, the expiry date of options and the number of options to be granted. The Company's stock-option plan as at March 31, 2004 and the changes during the periods are summarized in the following table:

	Number	Weighted average exercise price
		2004
		\$
Outstanding, as at December 31, 2002		
Awarded	<u>3,096,506</u>	<u>0.47</u>
Outstanding, as at March 31, 2003	<u>3,096,506</u>	<u>0.47</u>
Awarded	690,000	1.15
Exercised	(234,444)	0.17
Cancelled	<u>(285,556)</u>	<u>0.53</u>
Outstanding, as at December 31, 2003	<u>3,266,506</u>	<u>0.63</u>
Awarded		
Exercised	(299,584)	0.51
Cancelled	<u>(32,694)</u>	<u>1.07</u>
<b>Outstanding, as at March 31, 2004</b>	<u><b>2,934,228</b></u>	<u><b>0.64</b></u>
Exercisable, at the end of the current period	<u>1,459,079</u>	<u>0.50</u>

#### 13 - COMPARATIVE FIGURES

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