

Victhom Human Bionics Inc.

Interim Financial Statements June 30, 2004 and 2003

Financial Statements	
Statement of Operations	2
Statements of Contributed Surplus and Deficit	3
Statement of Cash Flows	4
Balance Sheets	5
Notes to Financial Statements	6 to 13

Victhom Human Bionics Inc.

Statement of Operations

periods ended June 30
(unaudited)

	<u>2004</u> <u>(3 months)</u> \$	<u>2003</u> <u>(3 months)</u> \$	<u>2004</u> <u>(6 months)</u> \$	<u>2003</u> <u>(6 months)</u> \$
Revenue	11 984	908 524	914 378	908 524
Expenses				
Research and development expenses, net	1 014 366	713 910	2 020 218	1 110 140
Business development expenses	350 684	90 415	440 743	238 540
Administrative expenses	610 225	325 356	1 270 561	573 023
Financial expenses	31 177	9 808	68 481	24 216
	2 006 452	1 139 490	3 800 003	1 945 919
Net loss	1 994 468	230 966	2 885 626	1 037 395
 Weighted average number of common shares outstanding	 43 250 923	 29 773 333	 38 901 822	 29 506 666
 Net loss per share				
Basic	0,05	0,01	0,07	0,04
Diluted	0,05	0,01	0,07	0,04

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

Victhom Human Bionics Inc.

Statements of Contributed Surplus and Deficit

periods ended June 30
(unaudited)

	<u>2004</u> <u>(3 months)</u> \$	<u>2003</u> <u>(3 months)</u> \$	<u>2004</u> <u>(6 months)</u> \$	<u>2003</u> <u>(6 months)</u> \$
CONTRIBUTED SURPLUS				
Balance, beginning of period	2 107 535		800 000	
Warrants issued in private placement (Note 9)			1 102 500	
Stock-based compensation (Note 12)			205 035	
Balance, end of period	<u>2 107 535</u>		<u>2 107 535</u>	
DEFICIT				
Balance, beginning of period	(7 239 701)	(3 068 680)	(6 348 543)	(2 262 251)
Net loss	(1 994 468)	(230 966)	(2 885 626)	(1 037 395)
Balance, end of period	<u>(9 234 169)</u>	<u>(3 299 646)</u>	<u>(9 234 169)</u>	<u>(3 299 646)</u>

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

Victhom Human Bionics Inc.

Statement of Cash Flows

periods ended June 30
(unaudited)

	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
	(3 months)	(3 months)	(6 months)	(6 months)
	\$	\$	\$	\$
OPERATING ACTIVITIES				
Net loss	(1 994 468)	(230 966)	(2 885 626)	(1 037 395)
Non-cash items				
Stock-based compensation (Note 12)			280 000	
Amortization of property, plant and equipment	101 949	42 886	182 635	80 077
Amortization of investment tax credits	(2 137)	(2 733)	(4 275)	(5 510)
Changes in working capital items	(95 706)	336 004	(1 724 666)	(560 867)
Cash flows from operating activities	<u>(1 990 362)</u>	<u>145 191</u>	<u>(4 151 932)</u>	<u>(1 523 694)</u>
INVESTING ACTIVITIES				
Property, plant and equipment	(787 263)	(146 697)	(982 434)	(191 677)
Patents	(188 142)	(16 862)	(210 633)	(16 862)
Cash flows from investing activities	<u>(975 405)</u>	<u>(163 559)</u>	<u>(1 193 067)</u>	<u>(208 539)</u>
FINANCING ACTIVITIES				
Note payable		160 000		160 000
Deposit for share subscription		250 000		250 000
Long-term debt	50 246	33 787	116 303	33 787
Repayment of long-term debt	(66 826)	(12 236)	(135 962)	(22 298)
Repayment of convertible debentures				(200 000)
Issue of shares	661 460		11 298 383	2 644 711
Cash flows from financing activities	<u>644 880</u>	<u>431 551</u>	<u>11 278 724</u>	<u>2 866 199</u>
Net increase (decrease) in cash and cash equivalents	(2 320 887)	413 182	5 933 725	1 133 966
Cash and cash equivalents, beginning of period	<u>10 304 084</u>	<u>751 318</u>	<u>2 049 472</u>	<u>30 534</u>
Cash and cash equivalents, end of period	<u><u>7 983 197</u></u>	<u><u>1 164 500</u></u>	<u><u>7 983 197</u></u>	<u><u>1 164 500</u></u>

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

Issue of shares related to:			
Patents related to a licensing agreement	1 000 000		1 000 000
Contributed surplus related to stock options exercised			(74 965)
Contributed surplus related to warrants issued within a private placement			1 102 500

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

Victhom Human Bionics Inc. Balance Sheets

	(Unaudited) June 30, 2004 \$	December 31, 2003 \$
ASSETS		
Current assets		
Cash and cash equivalents	7 983 197	2 049 472
Accounts receivable (Note 6)	2 745 723	1 240 718
Prepaid expenses	79 876	9 919
	<u>10 808 796</u>	<u>3 300 109</u>
Investments, at cost (Note 7)	1 047 035	1 047 035
Property, plant and equipment	2 191 129	1 391 330
Patents	1 395 507	184 874
	<u>15 442 467</u>	<u>5 923 348</u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	1 022 312	1 162 443
Instalments on long-term debt	134 173	267 478
	<u>1 156 485</u>	<u>1 429 921</u>
Deferred investment tax credits	40 621	44 896
Long-term debt	1 446 326	1 332 680
Liability component of convertible debenture (Note 8)	890 000	899 572
	<u>3 533 431</u>	<u>3 707 069</u>
SHAREHOLDERS' EQUITY		
Equity component of convertible debenture	110 000	110 000
Capital stock (Note 9)	18 925 670	7 654 822
Contributed surplus	2 107 535	800 000
Deficit	(9 234 169)	(6 348 543)
	<u>11 909 036</u>	<u>2 216 279</u>
	<u>15 442 467</u>	<u>5 923 348</u>

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

On behalf of the Board,

/s/ Benoit Côte
President and Chief Executive
Officer

/s/ Benoit Chotard
Vice President and Chief Financial
Officer

Victhom Human Bionics Inc.

Notes to Financial Statements

As at June 30, 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 researches for the design and development of prosthetic 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 expenditures 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 STATEMENTS 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. Revenues are recognized in the statement of earnings when milestones are attained and the payment is accepted by the third party. The agreement does not indicate any terms of repayment in the event that the product is not marketed.

The research and development service contracts are recognized when the services are handed and accepted by the client.

Victhom Human Bionics Inc.

Notes to Financial Statements

As at June 30, 2004 and December 31, 2003

(unaudited)

3 - ACCOUNTING POLICIES (Continued)

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. Revenues 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.

Patents

Patents, composed of costs relating to obtaining such patents, are recorded at cost and are amortized on a straight-line basis over three years beginning in the year of marketing of the products developed.

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 to employees on or after January 10, 2003. Any consideration paid by employees when exercising stock options is credited to capital stock. If employees redeem stock options, the surplus of the consideration paid over the book value of the cancelled stock options 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 during the current fiscal year of the Corporation. 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 stock options, warrants and convertible debentures were not included in the computations of diluted earnings per share for the quarters ended June 30, 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 OPERATIONS

	June 30, 2004	June 30, 2003
	\$	\$
Interest on investments	(52 892)	(4 767)
Research and development expenses	2 712 553	1 515 429
Research and development tax credits	(821 401)	(399 779)
Amortization of investment tax credits	(4 275)	(5 510)
Amortization of property, plant and equipment	182 635	80 077
Interest on long-term debt and convertible debentures	143 368	8 555
Exchange loss	(39 201)	(1 191)
Stock-based compensation (Note 12)	280 000	

Victhom Human Bionics Inc.

Notes to Financial Statements

As at June 30, 2004 and December 31, 2003

(unaudited)

5 - 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:

	June 30, 2004	December 31, 2003
	\$	\$
Future income tax assets		
Non-capital losses	1 520 000	819 000
Research and development expenses	1 517 000	1 337 000
	<u>3 037 000</u>	<u>2 156 000</u>
Future income tax liabilities		
Property, plant and equipment	267 000	343 000
	<u>2 770 000</u>	<u>1 813 000</u>
Valuation allowance	<u>(2 770 000)</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 \$4,054,000 for federal tax purposes and \$4,004,000 for provincial tax purposes and are detailed as follows:

	Federal	Provincial
	\$	\$
Amount of losses for tax purposes carried forward until 2010	4 054 000	4 004 000
Eligible research and development expenses to be deferred over an undetermined period	4 606 000	5 600 000
	<u>8 660 000</u>	<u>9 604 000</u>

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

6 - ACCOUNTS RECEIVABLE

	June 30, 2004	December 31, 2003
	\$	\$
Investment tax credits receivable	1 795 271	973 870
Sales taxes receivable	272 719	192 622
Licensing receivables	444 590	
Note receivable from an employee related to share subscription	32 000	
Share subscription receivable	22 000	
Advance to a company related to a former director, bearing interest at 10% annually	30 000	30 000
Others	149 143	44 226
	<u>2 745 723</u>	<u>1 240 718</u>

The investment tax credits receivable recorded by the Company, for the period ended June 30, 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 June 30, 2004 and December 31, 2003
(unaudited)

7 - INVESTMENTS, at cost

	<u>June 30, 2004</u>	<u>December 31, 2003</u>
	\$	\$
Term deposit, bearing interest at 2.5% annually, 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, bearing interest at 10% annually, without repayment terms	47 035	47 035
	<u>1 047 035</u>	<u>1 047 035</u>

8 - CONVERTIBLE DEBENTURES

The following table illustrates variations in the two interim periods:

	<u>Liability component</u>	<u>Equity component</u>
	\$	\$
Balance as at December 31, 2002	843 321	255 048
Instalment on debentures	(166 506)	
Debentures converted into common shares	(676 815)	(255 048)
Balance as at June 30, 2003	-----	-----
Issue of a convertible debenture Global (GMPC) Holdings Inc. (a)	890 000	110 000
Increase in expected interest on debentures	9 572	
Balance as at December 31, 2003	899 572	110 000
Payment of interest on debenture	(9 572)	
Balance as at June 30, 2003	<u>890 000</u>	<u>110 000</u>

- (a) Debenture issued to Global (GMPC) Holding Inc. having a par value of \$1,000,000 secured by the investment tax credits, bearing interest at the rate of 12% (effective rate of 20%) as of December 19, 2003, maturing on December 17, 2005.

Victhom Human Bionics Inc. Notes to Financial Statements

As at June 30, 2004 and December 31, 2003

(unaudited)

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 June 30, 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
Stock 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>
Issuance of shares, less expenses (1)	8 543 699	9 836 363
Stock options exercised	306 167	232 325
Warrants exercised	<u>1 502 700</u>	<u>1 202 160</u>
Balance as at June 30, 2004	<u>43 854 700</u>	<u>18 925 670</u>

- (1) On May 11, 2004, the company entered into a licensing agreement for a gross cost of \$1.1 million by virtue of which Victhom holds the rights to use a neuroelectronic implant. This agreement is carried out through the issuance of 632 912 Victhom treasury common shares at a price of \$1.58 per share, less financing expenses, for a net proceed of \$997,800 and a \$100,000 monetary compensation.

Victhom Human Bionics Inc. Notes to Financial Statements

As at June 30, 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%, risk-free interest rate of 2.25% to 4.16%, and no dividend expected for one year.

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

	Number	Weighted average exercise price 2004 \$
Outstanding, as at December 31, 2002		
Granted	3 580 000	0,80
Outstanding, as at June 30, 2003	3 580 000	0,80
Granted	1 527 778	1,35
Exercised	(438 800)	0,80
Outstanding, as at December 31, 2003	4 668 978	0,96
Granted	4 192 723	1,85
Exercised	(1 502 700)	0,80
Cancelled	(138 889)	1,35
Outstanding, as at June 30, 2004	7 220 112	1,51

10 - RELATED PARTY TRANSACTIONS

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

	June 30, 2004 \$	June 30, 2003 \$
Expenses		
Professional fees paid under agreements concluded with two entities controlled by directors	68 900	135 000

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

Victhom Human Bionics Inc. Notes to Financial Statements

As at June 30, 2004 and December 31, 2003

(unaudited)

11 - COMMITMENTS

The Company has entered into a lease, expiring on September 30, 2009, which calls for payment of \$924,462 for the rental of premises. Minimum payments during the current period and the next years amount to \$88,044 in 2004 and \$176,088 in 2005, 2006, 2007 and 2008.

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 June 30, 2004	Entered into December 31, 2003
\$	\$	\$
Research and development of a neuroelectrical measuring system for an antropomorphic limb, ending in August 2005	949 000	480 000
Intelligent medical devices (IMD), ended in April 2004	140 000	100 000
	1 089 000	580 000

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». For the current period, no research has been required and no amount has been recorded relating to this agreement.

By virtue of the licensing agreement signed on May 11, 2004, the Company will pay, beginning January 2005, annual royalties on implant net sales. Minimum royalties of \$25,000 will be paid if no sales occur during a fiscal year. In addition, based on attainable performance objectives, the Company will pay \$125,000 in June 2007 and October 2008, and \$250,000 in November 2009. This agreement will expire, on a per country basis, on the date patents expire or by mutual agreement of the parties in accordance with the terms applicable.

Victhom Human Bionics Inc.

Notes to Financial Statements

As at June 30, 2004 and December 31, 2003

(unaudited)

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 June 30, 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	3 161 506	0,48
Cancelled	(260 000)	0,53
Outstanding, as at June 30, 2003	2 901 506	0,48
Awarded	625 000	1,18
Exercised	(234 444)	0,17
Cancelled	(25 556)	0,53
Outstanding, as at December 31, 2003	3 266 506	0,63
Awarded	982 500	1,62
Exercised	(306 167)	0,51
Cancelled	(172 313)	1,02
Outstanding, as at June 30, 2004	3 770 526	0,88
Exercisable, at the end of the current period	1 804 408	0,63

13 - SUBSEQUENT EVENTS

On July 26, 2004, the Company acquired Vancouver-based Neurostream Technologies Inc. This transaction is carried out through the issuance of 4,539,241 Victhom treasury common shares at a price of \$1.58 per share for a total value of \$7.172 million. In addition, Victhom issued 107,933 stock options and 370 886 warrants in exchange for the stock options and warrants held by Neurostream's optionees and warrant holders.

14 - COMPARATIVE FIGURES

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