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Update Report July 3, 2008

VICTHOM HUMAN BIONICS INC.

($0.125, VHB: TSX)

Recommendation
Speculative Buy (No Change)

Risk
High

Price (July 2)
$0.125

52-Week Range
$0.30-$0.085

Target Price
1-Year: $0.40 (Raised)
4-Year: $1.50 (New)

Potential Return
1-Year: 3.20x
4-Year: 12.00x

Shares O/S
95.89 million

Market Cap
$12 million

Average Daily Volume
20-day: 191,800
150-day: 117,900

Year-End
December 31

C$	REV	EPS
2007A	$2.27	($0.12)
2008E	$3.00	($0.10)
2009E	$2.80	($0.09)
2010E	$12.88	($0.04)
2011E	$35.84	$0.08

REV: Revenue (millions)
EPS: Earnings Per Share

Analysts
Asim Bukhtiar, MBA, CFA
Bob Weir, B.Sc., B.Comm., CFA

Data Source: www.BigCharts.com

UPFRONT

Plans to commercialize the Neurostep in 2009 mean that a partnership agreement may be on the horizon. The POWER KNEE 2 is attracting greater market attention and expanding addressable market size. The next 12 months should be interesting.

RECOMMENDATION

We have increased our one-year Target Price to $0.40 per share from $0.30, with our valuation based on discounted cash flow and sales multiple analyses. We are introducing our four-year target price of $1.50 based on 4.5x expected 2012 sales. We continue to rate the shares as a Speculative Buy, suitable for risk-tolerant investors willing to take a longer-term view.

PROFILE

Victhom Human Bionics Inc. ("Victhom" or the "Company") specializes in the development of artificial intelligence-based prosthetics and fully implantable neurostimulation devices for the treatment of stroke-related physical dysfunctions.

HIGHLIGHTS

- $5 billion addressable market for the Neurostep which could potentially become the market leader.
- Positive initial results for the Neurostep. Public release of trial results expected by the end of 2008.
- Neurostep is just the beginning; the CLS (closed-loop system) platform can open additional markets with greater revenue potential for Victhom.
- Significant technical improvements in the POWER KNEE 2 have positioned the product to address greater market size.
- Substantial intellectual property portfolio with 50 granted and 75 pending patents.
- Dependence on external capital for at least the next two years.
- Market conditions and stock price may be key deciding factors in proceeding with new products.

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THE COMPANY

Incorporated in January 2002 as Begama Technologies, the Company changed its name to Victhom Human Bionics in November of the same year. Founded by its current Co-Chief Operating Officer Stéphane Bédard, Victhom is located in Saint-Augustin-de-Desmaures, near Quebec City. The Company employs a staff of 60 in research and development and 10 in administrative roles.

As a medical device company, Victhom focuses on the research, development and commercialization of bionic devices that target physical dysfunctions caused by limb amputation, and disorders such as foot drop, sleep apnea and chronic pain. Areas of specialty include the Orthotics and Prosthetics (O&P) and neuromodulation markets. Victhom has a portfolio of 50 granted and 75 pending patents in various countries worldwide.

HISTORY

TABLE 1: COMPANY TIMELINE

Nov-2002	Established as Victhom Human Bionics.
Apr-2004	Listed on TSX under symbol VHB.
Jul-2004	Acquires Neurostream Technologies for $7.1M.
Oct-2004	Strategic partner Ossur assumes responsibility for the commercial launch of the Bionic Leg and announces pre-marketing trials.
Jan-2005	Receives first order for 50 bionic legs from partner Ossur.
Mar-2005	Completes $18.4M financing via private placement of convertible debentures.
Sep-2005	Announces collaborative agreement for development of Orthotics and Prosthetics products with Ossur over a period of 3 to 6 years. Ossur to fund development costs totalling $18M.
Nov-2005	POWER KNEE (Bionic Leg) wins Popular Science award for *2005 Best of What's New*.
Jul-2006	Meets with Medical Devices Bureau of Health Canada to discuss clinical development program for testing involving human subjects for Neurostep.
Sep-2006	Worldwide launch of POWER KNEE by Ossur.
Oct-2006	Announces pilot animal studies on medical indications of Bionized CLS neuromodulator.
Nov-2006	Receives authorization from Health Canada to conduct investigational testing of Neurostep. Met with U.S. Food and Drug Administration to discuss clinical development of Neurostep.
Mar-2007	Completes $12.4M financing through secondary offering at $0.35 per unit.
Oct-2007	Announces the receipt of "no objection" letter from the regulatory body in the U.K. to commence clinical investigation of the Neurostep.
Dec-2007	Announces approval from the Canadian health authorities to commence clinical investigation of the Neurostep in Quebec City.
Jan-2008	Announces approval from Max Healthcare Institute Ethics Committee to commence clinical investigation of the Neurostep in India.
Apr-2008	President and CEO Benoit Huet departs Victhom. Normand Rivard assumes responsibility of acting President.
Apr-2008	Announces positive initial results of CLS technology in ongoing human trials.
Jun-2008	Announces plans to commercialize the Neurostep in 2009.

Source: Company reports

In April 2002, the Company was listed on the TSX Venture Exchange, under the symbol VHB, initially as a capital pool company. In April 2004, Victhom started trading on the TSX under the symbol VHB.

COMMENT: *Midsummer Investment announced the acquisition of 2.1 million shares of Victhom in January 2008, bringing its total ownership of Victhom shares to 11.4 million or 11.91% of total shares outstanding.*

OPERATIONS

Victhom is comprised of two business units: Biotronix and Neurobionix.

1. Biotronix

The Biotronix business unit addresses the O&P market through the development of product candidates to support or replace peripheral limbs. With 17 issued and 30 pending patents to its credit, Biotronix develops highly sophisticated, motorized and interactive O&P products utilizing sensors and artificial intelligence. These products provide greater flexibility and possibilities for individuals living with the loss of a lower limb, such as covering greater distances and climbing stairs. Victhom partnered with Ossur, an Icelandic company, in October 2004 for the development of the Bionic Leg, which became commercially available as the POWER KNEE in September 2006. The group's current development activities are focusing on the next generation of the POWER KNEE.

2. Neurobionix

The Neurobionix business unit is making advances in the highly attractive neuromodulation field through the development of platforms such as the Bionized CLS Neuromodulator. The unit has 20 issued and 52 pending patents. While numerous neurostimulation products and technologies are widely available, the Bionized CLS Neuromodulator is a pioneer. It is a completely implantable device with the ability to measure (sense) and stimulate the peripheral nervous system to treat physiological dysfunctions caused by stroke or multiple sclerosis. This technology can be applied in the treatment of gait disorders (e.g. foot drop), obesity, sleep apnea and chronic pain. The first product built on this platform is the Neurostep, currently undergoing clinical trials. Neurostep is a completely implantable device used to treat gait disorders.

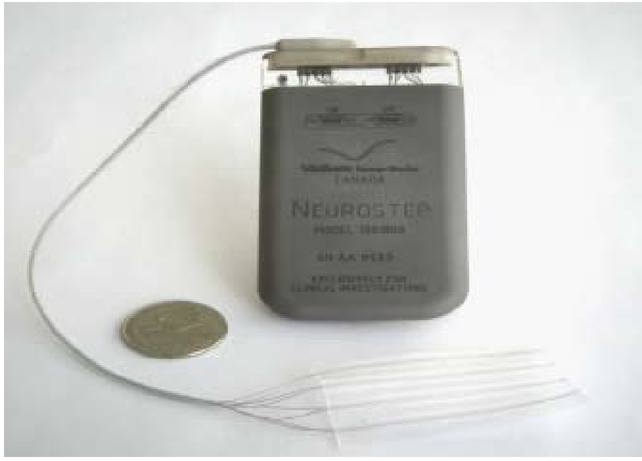
PRODUCTS

Victhom is currently focusing on two products: Neurostep and POWER KNEE 2.

1. NEUROSTEP

Developed on the Bionized CLS Neuromodulator platform, the Neurostep is a completely implantable device used for the treatment of foot drop, a condition resulting from stroke. The condition causes the patient to slap the foot on the floor. Because the Neurostep has no external attachments, the patient has greater freedom to perform activities such as swimming or sleeping. The procedure for implanting the Neurostep is low-risk and much less complicated than, for instance, a Pacemaker implant.

FIGURE 1: NEUROSTEP



Source: Company reports

The Neurostep is in multi-centre clinical trials in Canada, the U.K. and India. The trials, which are expected to be completed in 2008, are being conducted using prototype models. Preliminary results have been positive. The Company wants to assess a larger sample of patients and data in preparation for public disclosure. As the prototype units do not meet commercialization standards, the Company is aiming to complete the commercial design of the Neurostep by the end of 2008, which includes longer battery life. The year 2009 will be a critical period for the Neurostep, as the Company moves to finalize the commercial proof-of-concept of the product and file with the European regulatory body for distribution. Victhom is targeting production of 100 commercial units of the Neurostep for the first half of 2009.

COMMENT: *We are expecting the Neurostep to start generating revenues in Europe in 2010. The product is already attracting attention at industry conferences. In our view, finding a commercialization partner for the Neurostep will not be a challenge should the Company decide to proceed in that direction. A move towards commercialization will be a strong catalyst for Victhom's shares, as it will validate the technology and products.*

If the Company can raise capital at favourable terms, then FDA trials may be considered next year. Generally, the approval process in the U.S. is long and expensive. We believe the Neurostep may be commercially available in the U.S. in 2011.

2. POWER KNEE 2

The POWER KNEE is a revolutionary product in the lower-limb prosthesis market and, as mentioned earlier, has been recognized by Popular Science magazine as the recipient of the 2005 "Best of What's New" award. It is the world's first motorized prosthesis for above-the-knee amputations. The product supports patient weight of up to 220 pounds. Weighing about 16 pounds, the POWER KNEE is battery-powered for self-propulsion, allowing the patient to cover greater distances with ease. The sensors located on the prosthesis communicate with the sensors on the sound leg via Bluetooth technology. Using artificial intelligence, the POWER KNEE calculates gait patterns and angular measurements at 1,350 times per second, enabling the prosthesis to determine the next step. Transfemoral (above-the-knee) amputees expend 80% more energy than individuals with two sound legs. The POWER KNEE vastly improves the patient's ability to climb stairs and walk over uneven terrain, while reducing fatigue due to self-propulsion.

FIGURE 2: POWER KNEE

Source: Company reports

The POWER KNEE became commercially available in September 2006 through Victhom's O&P partner Ossur. The product retails for about $100,000 including the device, training, rehabilitation and fitting. Due to the cost of the device, use is limited to military personnel living with the loss of a lower limb. Much less sophisticated competing products retail for $20,000-$40,000.

Victhom is working with Ossur in the development of the next generation of the POWER KNEE, which will feature reduced product weight of about eight pounds, longer battery life, quieter operation, and - most importantly - a lower price tag. Victhom and Ossur aim to make the POWER KNEE far more competitive by trimming the price by half. Further impetus for greater market adoption will be provided by reimbursement by public and private insurers.

Product specifications for the POWER KNEE 2 should be available in September 2008. Technical improvements include a complete re-design of the Artificial Intelligence (AI) integration and the elimination of the need for equipment on the sound leg. All sensors and equipment will be located on the prosthesis. This will increase the target market size and provide greater ease of movement with less training.

MANAGEMENT AND DIRECTORS

1. Company Officers

The current management team is comprised of:

Normand Rivard - Acting President and Chief Financial Officer
Normand Rivard brings past experience in a financial capacity in the medical field, as well as expertise in business acquisitions and financing.

Stéphane Bédard - Founder and Chief Operating Officer, Biotronix
Stéphane Bédard is credited as the inventor of the bionic leg (POWER KNEE). He brings considerable experience in human anatomy, physiology, and biochemistry.

Nader Kameli - Chief Operating Officer, Neurobionix
Nader Kameli has over 25 years' experience in safety-critical product development. He has previously served as Group Manager of Business Development for Boston Scientific/Guidant. In addition, Mr. Kameli has extensive experience with intellectual property licensing.

Lana Fiset - Vice President, Legal Affairs, Human Resources, and Secretary General
Lana Fiset brings 10 years' experience in a legal capacity in the financial services industry. In addition, she has held positions as legal counsel for life sciences and pharmaceutical companies.

COMMENT: *The Company is assessing the performance of the current management team. Finding a permanent CEO has dropped on the priority list as the focus remains on the commercialization of the Neurostep. Commercialization experience will be a key selection criterion for the new CEO.*

2. Board of Directors

Daniel Johnson, LL.M., MBA, Ph.D. - Chairman of the Board (Counsel at McCarthy Tétrault LLP)
Normand Rivard (Acting President and CFO, Victhom Human Bionics)
Stéphane Bédard (Founder and COO, Victhom Human Bionics)
Jeffrey Hill, Ph.D. (President, Healthcare Business Associates)
Nitin Kaushal, CA (Head of Investment Banking, Desjardins Securities)
Hans Mader (CEO, HJM & Associates)
Martin LeBlanc (CEO, Caprion Proteomics)
Nader Kameli (COO, Victhom Human Bionics)

RISKS

The following risk factors could materially impact Victhom's commercialization and revenue-generation abilities.

Uncertainty Associated With Time to Market
At its current stage, Victhom is a research and development company. The products and technologies being developed need to endure extensive testing, data collection, and regulatory approvals. As a result, the time to market for Victhom's products and technologies cannot be pre-determined with certainty.

Ability to Secure Funding and Raise Capital
Victhom requires access to funding - by way of grants, development reimbursements and additional capital - in order for its key products and technologies to reach commercialization and market acceptance. The Company has generated losses to date and may continue to do so in the future; therefore, continuous funding is required to keep the Company solvent.

Regulatory Approvals
Prior to reaching commercialization, Victhom's products and technologies need to secure regulatory approvals from the relevant authorities in the target markets. The approvals may be delayed, or may not materialize.

Intellectual Property Patent Infringement
Victhom may have to defend itself against patent infringement claims by competing companies. Alternatively, Victhom may have to successfully pursue competitors infringing on its intellectual property. In either circumstance, the legal process may be lengthy, costly, and uncertain.

Securing and Depending on Partnerships
For its Neurobionix business, Victhom may seek to secure a collaborative development and marketing partnership. The partnership may not be on favourable terms to the Company, or may not materialize at all. In addition, the Company would be dependent on its partner's ability to successfully launch and market its new and existing products.

Competition and Technological Change
The neurostimulation business is highly competitive with rapid technological advancements. Victhom's products may not retain their technological advantage due to shorter development timeframes, lower costs, and greater market acceptance of competing products.

Litigation and Product Liability
Medical device developers face lawsuits and litigation risk arising from product liability. An adverse decision could force product design changes or discontinuation of the product platform. Liability insurance may be difficult and costly to secure.

Dependence on Key Technical Staff
Victhom is dependent on its key technical staff for research and development activities. Departure of key technical personnel may slow the research and development activities of the Company. Additionally, unless subject to a non-compete clause, the departing employees may take to competitors the knowledge and trade secrets gained at Victhom.

FINANCIAL REVIEW AND OUTLOOK

Victhom's fiscal year-end is December 31.

1. Revenues

(a) POWER KNEE: We expect revenues of $3.0 million for 2008 compared with $2.2 million for 2007. The revenues consist of reimbursements from Ossur for the POWER KNEE, which will total approximately $18 million through 2012. We estimate that the POWER KNEE 2 will be commercially available in 2009 and retail for about $50,000 including device, fitting and rehabilitation. We assume that Victhom will receive 6%, or $3,000 royalty per unit. We are projecting sales of 1,000 and 1,500 units in 2011 and 2012, respectively, and corresponding royalties of $3 million and $4.5 million. Product sales should peak at approximately 4,000 units per year, generating royalties of $12 million annually.

(b) Neurostep: We believe that the Neurostep will launch commercially in Europe and the U.S. in 2010 and 2011, respectively. We estimate the market size for the Neurostep at $5 billion, based on a 12% addressable pool out of 2.8 million first-year and second-year stroke patients. The product is expected to retail for about $15,000 and should generate revenues of $10.1 million, $30.2 million and $50.4 million in 2010, 2011 and 2012, respectively. Success with the Neurostep will lead to revenue ramp-up (+178% year-over-year) in 2011. We believe that the Bionized CLS Neuromodulation is the key to unlocking Victhom's value. Other indications such as sleep apnea, obesity and chronic pain will open further opportunities for Victhom beyond our four-year forecast horizon.

TABLE 2: REVENUE FORECAST

Assumptions for POWER KNEE 2:	
Selling price per unit	$50,000
Percent to manufacturer (Ossur)	60%
Percent royalties to Victhom	10%

Assumptions for Neurostep:	
First and second-year stroke patients in US & Europe	2,800,000
Percent addressable foot drop patients	12%
Target patient base	336,000
Selling price per unit	$15,000
Estimated market size	$5,040,000,000

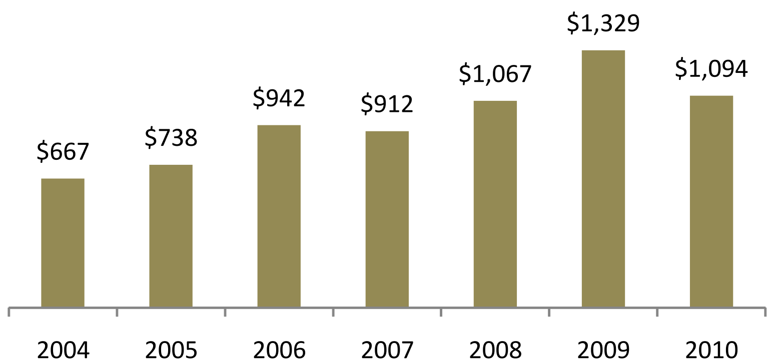
(in 000s)	2007	2008	2009	2010	2011	2012
POWER KNEE 2	$2,200	$3,000	$2,800	$2,800	$5,600	$5,900
Reimbursements	$2,200	$3,000	$2,800	$2,800	$2,600	$1,400
Units sold	-	-	100	500	1,000	1,500
Royalties	$0	$0	$0	$0	$3,000	$4,500
Neurostep	$0	$0	$0	$10,080	$30,240	$50,400
Penetration rate	-	-	0.0%	0.2%	0.6%	1.0%
Total revenue	$2,200	$3,000	$2,800	$12,880	$35,840	$56,300
EBITDA	-$8,462	-$9,442	-$12,874	-$4,801	$12,821	$24,012
EBITDA Margin	-	-	-	-	36%	43%

Source: eResearch

2. Costs

We expect the average monthly burn rate to peak at $1.3 million in 2009 as the Company moves towards the commercialization of the Neurostep in Europe, and continues the approval process in the U.S. We believe the Company will incur an additional $5.5 million in clinical costs for FDA approval for the Neurostep from 2008 to 2010.

FIGURE 3: MONTHLY BURN RATE (000s)



Source: eResearch

3. Financing

Victhom's cash position at the end of Q1/08 was a healthy $10.4 million. Market conditions permitting, we believe the Company may do another round of financing to raise $7.0 million in 2008.

COMMENT: *We believe a rise in stock price to $0.30 per share might prompt the Company to raise capital. Additional capital can be applied towards R&D activities for other indications of the CLS Neuromodulator or securing FDA approval to commence clinical trials for the Neurostep in the U.S.*

TABLE 3: SELECTED FINANCIAL INFORMATION (000s, except per share)

	Three Months Ending March 31:		Year Ending December 31:								
	2007	2008	2004	2005	2006	2007	2008E	2009E	2010E	2011E	2012E
Statement of Income/(Loss):											
Revenue	$560	$574	$1,311	$4,207	$3,200	$2,272	$3,000	$2,800	$12,880	$35,840	$56,300
Less: Cost of Sales	$0	$0	$0	($1,606)	($444)	$0	$0	$0	($4,536)	($13,608)	($22,680)
Less: Research & Development	($1,984)	($2,276)	($6,545)	($6,238)	($8,414)	($8,514)	($10,439)	($13,961)	($12,500)	($8,000)	($8,000)
Add: Tax Credits & Grants	$311	$341	$1,140	$1,184	$1,167	$1,031	$1,357	$1,815	$1,625	$1,040	$1,040
Less: General & Administrative	($390)	($680)	($2,221)	($2,021)	($1,924)	($1,460)	($1,490)	($1,564)	($1,689)	($1,824)	($1,970)
EBITDA	($1,503)	($2,041)	($6,315)	($4,474)	($6,415)	($6,671)	($7,572)	($10,910)	($4,220)	$13,448	$24,690
Less: Stock-based Compensation	($60)	($45)	($594)	($1,141)	($567)	($325)	($358)	($394)	($433)	($476)	($524)
Less: Amortization	($184)	($166)	($443)	($814)	($1,031)	($767)	($600)	($493)	($995)	($1,371)	($1,653)
EBIT	($1,747)	($2,251)	($7,351)	($6,430)	($8,013)	($7,764)	($8,530)	($11,797)	($5,648)	$11,600	$22,512
Less: Financial Expenses	($507)	($517)	($374)	($1,780)	($2,133)	($1,998)	($2,234)	($2,234)	$0	$0	$0
Less: Income Tax	$0	$0	$0	$0	$0	$0	$0	$0	($565)	$1,160	$3,377
Net Income (Loss)	($2,254)	($2,768)	($7,726)	($8,210)	($10,146)	($9,762)	($10,764)	($14,031)	($6,213)	$12,760	$25,889
Total Shares Outstanding	51,398	95,892	49,851	50,386	52,592	95,892	119,226	152,226	168,040	168,040	168,040
Weighted Average Shares Outstanding	50,409	88,061	43,755	50,217	50,902	82,046	111,226	150,226	166,040	168,040	168,040
Earnings (Loss) Per Share	($0.04)	($0.03)	($0.18)	($0.16)	($0.20)	($0.12)	($0.10)	($0.09)	($0.04)	$0.08	$0.15
Statement of Cash Flow:											
Net Income (Loss)	($2,254)	($2,768)	($7,726)	($8,210)	($10,146)	($9,762)	($10,764)	($14,031)	($6,213)	$12,760	$25,889
Non-Cash Items:											
Stock-based Compensation	$60	$45	$594	$1,141	$567	$325	$358	$394	$433	$476	$524
Interest on Conv. Debentures	$587	$645	$68	$562	$2,099	$2,483	$2,234	$2,234	$0	$0	$0
Amortization	$184	$166	$443	$814	$1,031	$767	$600	$493	$995	$1,371	$1,653
Changes in Working Capital	$1,374	$41	($574)	($354)	($941)	$1,971	($1,356)	($988)	($333)	($1,191)	($4,528)
Cash Flows from Operations	($49)	($1,872)	($7,196)	($6,047)	($7,390)	($4,215)	($8,927)	($11,898)	($5,118)	$13,416	$23,538
Property, Plant, & Equipment	($54)	($47)	($1,182)	($1,212)	($834)	($171)	($171)	($2,500)	($2,500)	($2,500)	($2,500)
Intangible Assets	($59)	($57)	($295)	($302)	($467)	($376)	($376)	($376)	($376)	($376)	($376)
Investments & Acquisitions	$0	$0	($2,865)	($9,558)	$13,636	$0	$0	$0	$0	$0	$0
Cash Flows from Investing	($114)	($104)	($4,343)	($11,071)	$12,335	($546)	($546)	($2,876)	($2,876)	($2,876)	($2,876)
Demand Loan	($820)	$0	$0	$0	$820	($820)	$0	$0	$0	$0	$0
Long-term Debt	$0	$0	$97	$0	$0	$0	$0	$0	$0	$0	$0
Repayment of Long-Term Debt	($8)	($5)	($270)	($1,366)	($35)	($31)	$0	$0	$0	$0	$0
Deferred Financing Costs	$0	$0	($13)	($1,307)	$0	$0	$0	$0	$0	$0	$0
Issue of Convertible Debentures	$0	$0	$0	$18,354	$0	$0	$0	$0	$0	$0	$0
Repayment of Convertible Debentures	$0	$0	$0	($825)	$0	$0	$0	$0	($14,890)	$0	$0
Issue of Shares & Warrants	$11,525	$0	$12,515	$167	$25	$11,556	$7,000	$16,500	$18,000	$0	$0
Cash Flows from Financing	$10,696	($5)	$12,329	$15,022	$810	$10,705	$7,000	$16,500	$3,110	$0	$0
Net Change in Cash	$10,534	($1,981)	$791	($2,096)	$5,755	$5,944	($2,474)	$1,726	($4,884)	$10,541	$20,662
Cash, Beginning of the Period	$6,499	$12,442	$2,049	$2,840	$744	$6,499	$12,442	$9,969	$11,695	$6,811	$17,352
Cash, End of the Period	$17,033	$10,461	$2,840	$744	$6,499	$12,442	$9,969	$11,695	$6,811	$17,352	$38,014
	As at March 31:		As at December 31:								
	2007	2008	2004	2005	2006	2007	2008E	2009E	2010E	2011E	2012E
Balance Sheet:											
Assets											
Cash	$17,033	$10,461	$2,840	$744	$6,499	$12,442	$9,969	$11,695	$6,811	$17,352	$38,014
Short-term Investments	$0	$0	$4,010	$13,626	$0	$0	$0	$0	$0	$0	$0
Accounts Receivable	$1,614	$1,454	$2,004	$1,689	$2,985	$1,294	$2,714	$3,630	$3,250	$2,080	$2,080
Inventories	$0	$0	$258	$372	$0	$0	$0	$140	$644	$1,792	$2,815
Prepaid Expenses	$161	$149	$84	$162	$230	$175	$175	$175	$175	$175	$175
Notes Receivable	$0	$0	$69	$0	$0	$0	$0	$0	$0	$0	$0
Property, Plant, & Equipment	$2,812	$2,301	$2,177	$2,795	$2,924	$2,401	$1,972	$3,979	$5,484	$6,613	$7,460
Intangible Assets	$9,439	$9,740	$8,630	$8,931	$9,398	$9,701	$10,077	$10,452	$10,828	$11,204	$11,579
Deferred Financing Costs	$0	$0	$8	$1,353	$1,028	$0	$0	$0	$0	$0	$0
	$31,061	$24,105	$20,081	$29,672	$23,064	$26,013	$24,906	$30,071	$27,192	$39,215	$62,123
Liabilities											
Accounts Payable	$1,199	$1,659	$1,189	$1,201	$1,264	$1,294	$1,359	$1,426	$1,498	$1,573	$1,651
Deferred Revenues	$0	$4	$501	$0	$0	$195	$195	$195	$195	$195	$195
Demand Loan	$0	$0	$0	$0	$820	$0	$0	$0	$0	$0	$0
Instalments on Long-term Debt	$27	$9	$1,262	$35	$30	$12	$0	$0	$0	$0	$0
Instalments on Conv. Debenture	$321	$325	$919	$0	$0	$0	$0	$0	$0	$0	$0
Deferred Tax Credits	$0	$0	$36	$0	$0	$0	$0	$0	$0	$0	$0
Long-term Debt	$9	$0	$185	$44	$15	$1	$0	$0	$0	$0	$0
Convertible Debentures (Liability)	$13,976	$15,210	$0	$14,070	$14,866	$14,890	$14,890	$14,890	$0	$0	$0
	$15,532	$17,208	$4,092	$15,350	$16,994	$16,393	$16,444	$16,512	$1,693	$1,768	$1,846
Shareholders' Equity	$15,529	$6,897	$15,989	$14,321	$6,070	$9,621	$8,462	$13,559	$25,499	$37,447	$60,277
	$31,061	$24,105	$20,081	$29,672	$23,064	$26,013	$24,906	$30,071	$27,192	$39,215	$62,123
Book Value Per Share	$0.30	$0.07	$0.32	$0.28	$0.12	$0.10	$0.07	$0.09	$0.15	$0.22	$0.36

Source: Company Reports & eResearch

COMMENT: *In 2007, G&A expenses dropped as a result of restructuring and the cash position benefited from changes in working capital. We expect R&D expenses to spike in 2009 as the Company moves towards commercialization of the Neurostep.*

VALUATION

We employed two methodologies for calculating the intrinsic value of Victhom: (i) discounted cash flow analysis (DCF), and (ii) sales multiple analysis.

Our DCF analysis, using a 25% discount rate and a 5.5x terminal multiple, yielded $0.51 per share. The discount rate of 25% reflects the inherent risk in successfully commercializing the Neurostep and achieving the target penetration rates. Our DCF model is based on a four-year horizon to 2012, the second year of positive cash flows.

In our sales multiple analysis, applying a sales multiple of 2.2x to discounted 2012 revenues returned a value of $0.38 per share. We note that U.S. comparables are typically valued between 4.0x and 5.0x 2012 sales.

TABLE 4: DCF VALUATION

Discount rate	25%			
Terminal multiple	5.5x			
	2009E	**2010E**	**2011E**	**2012E**
Cash Flows (000s)	($11,898)	($5,118)	$13,416	$23,538
Period		1	2	3
Discount factor		0.8000	0.6400	0.5120
PV of Cash flow / shr	-$0.08	-$0.03	$0.08	$0.14
PV of terminal value / shr				$0.39
Sum of PV / shr	$0.51			
Sales Multiple	2.2x			
2012E sales (000s)	$56,300			
2012E sales / shr	$0.34			
Discounted sales / shr	$0.17			

Source: eResearch

Our sensitivity analysis considers varying discount rates and 2012 price-to-sales ("P/S") multiples. The share value is more sensitive to P/S multiple expansion than to changes in discount rates.

TABLE 5: SENSITIVITY ANALYSIS

	2012 Revenue multiple			
Discount rate	2.2x	3.0x	4.0x	5.0x
25%	$0.38	$0.51	$0.69	$0.86
30%	$0.34	$0.46	$0.61	$0.76
35%	$0.30	$0.41	$0.54	$0.68

Source: eResearch

CONCLUSION

We believe that the Neurostep trials are progressing and the Company is on track to commercialize the product in 2009. The Neurostep holds enormous promise and is the key to unlocking Victhom's value. Secondly, the POWER KNEE 2 is attracting increased market attention. The product's re-design and improved performance could potentially increase market size. As a result, we are raising our one-year Target Price to $0.40 from $0.30. The $0.40 target is based on the combination of the DCF and sales multiple analyses. We are introducing our four-year Target Price of $1.50 based on 4.5x 2012 sales - we expect the multiple to expand as the Company continues to mature and products take hold.

We continue to rate the shares as a Speculative Buy, suitable for risk-tolerant investors willing to take a longer-term view.

NOTES

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Each Research Analyst who was involved in the preparation of this Research Report hereby certifies that: (1) the views, opinions, and recommendations expressed in this Research Report reflect accurately the Research Analyst's personal views concerning any and all securities and issuers that are discussed herein and are the subject matter of this Research Report; and (2) the fees, earnings, or compensation, in any form, payable to the Research Analyst, is not and will not, directly or indirectly, be related to the specific views, opinions, and recommendations expressed by the Research Analyst in this Research Report.

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Medium Risk: *Financial* - Several years of revenue and positive earnings, balance sheet in line with industry average, positive free cash flow, adequate working capital solvency, may or may not pay a dividend.

Operational - Competitive market position and cost structure, industry stable, business model/technology is well established and consistent with current state of industry

Low Risk: *Financial* - Strong revenue growth and earnings over several years, stronger than average balance sheet, strong positive free cash flows, above average working capital solvency, company may pay (and stock may yield) substantial dividends or company may actively buy back stock.

Operational - Dominant player in its market, below average cost structure, company may be a consolidator, company may have a leading market/technology position.

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