

URODYNAMIX TECHNOLOGIES LTD.

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

"James Heppell"

James Heppell, Director

Interim Financial Statements of

Urodynamix Technologies Ltd.

September 30, 2009

(Unaudited)

Urodynamix Technologies Ltd.

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Vancouver, BC

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Investment Information:

Shares Listed: TSX-V:URO

Common shares authorized: Unlimited

Common shares outstanding as at:

December 31, 2008 107,227,893

September 30, 2009 137,688,867

November 30, 2009 137,688,867

Urodynamix Technologies Ltd.

September 30, 2009

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Urodynamix Technologies Ltd.

Interim statement of operations, comprehensive loss and deficit

Quarter ended September 30, 2009 and 2008

(Unaudited - prepared by management)

	Three months ended September 30		Nine months ended September 30	
	2009	2008	2009	2008
	\$	\$	\$	\$
Revenue (Note 9)	15,245	33,498	308,397	127,751
Cost of goods sold	2,697	10,614	180,691	53,473
Gross profit	12,548	22,884	127,706	74,278
Expenses				
General and administrative (Schedule)	324,154	261,988	1,010,350	962,052
Research and development (Schedule)	137,799	300,893	662,837	1,068,883
Selling and Marketing (Schedule)	125,062	79,548	389,389	91,514
Stock-based compensation	43,829	72,592	193,294	233,377
Amortization of intangibles	-	852	-	-
Amortization of property and equipment	13,022	9,729	38,466	25,658
	643,866	725,602	2,294,336	2,381,484
Loss from operations	(631,318)	(702,718)	(2,166,630)	(2,307,206)
Other income (expenses)				
Loss on disposal of fixed assets	-	(17,028)	-	(17,028)
Lease termination penalty	-	(15,122)	-	(15,122)
Write off of deferred tenant inducements	-	(10,016)	-	(10,016)
Realized and unrealized foreign exchange gain (loss)	(5,132)	2,190	(38,031)	3,765
Interest expense	(2,506)	(805)	(5,417)	(3,133)
Interest income	669	6,158	6,619	42,918
	(6,969)	(34,623)	(36,829)	1,384
Net loss and comprehensive loss for the period	(638,287)	(737,341)	(2,203,459)	(2,305,822)
Basic and diluted loss per share	(0.01)	(0.01)	(0.02)	(0.03)
Weighted average number of basic and diluted common shares outstanding	109,154,553	81,907,676	107,790,968	81,778,550

Urodynamix Technologies Ltd.

Interim statement of shareholders' equity

Quarter ended September 30, 2009 and 2008

(Unaudited - prepared by management)

	Common shares		Contributed surplus	Total capital	Deficit	Total shareholders' equity
	<u>Issuable, Issued and outstanding</u>					
	Number	Amount				
		\$	\$	\$	\$	\$
Balance, December 31, 2007	81,727,893	14,844,503	2,071,463	16,915,966	(14,283,566)	2,632,400
Net loss	-	-	-	-	(2,305,822)	(2,305,822)
Stock-based compensation	-	-	233,377	233,377	-	233,377
Shares issued	500,000	107,500	-	107,500	-	107,500
Balance, September 30, 2008	82,227,893	14,952,003	2,304,840	17,256,843	(16,589,388)	667,455
Net loss	-	-	-	-	(1,122,210)	(1,122,210)
Shares issued for cash pursuant to private placement, net of costs	25,000,000	2,466,260	-	2,466,260	-	2,466,260
Stock-based compensation	-	-	65,179	65,179	-	65,179
Shares issued	-	-	-	-	-	-
Balance, December 31, 2008	107,227,893	17,418,263	2,370,019	19,788,282	(17,711,598)	2,076,684
Net loss	-	-	-	-	(2,203,459)	(2,203,459)
Stock-based compensation	-	-	193,294	193,294	-	193,294
Shares issued for patent rights	150,000	11,250	-	11,250	-	11,250
Shares issued for cash pursuant to private placement, net of costs	30,310,992	1,436,192	-	1,436,192	-	1,436,192
Balance, September 30, 2009	137,688,885	18,865,705	2,563,313	21,429,018	(19,915,057)	1,513,961

Urodynamix Technologies Ltd.

Balance sheet

(Unaudited - prepared by management)

	September 30, 2009	December 31, 2008
	\$	\$
Assets		
Current assets		
Cash and cash equivalents	1,333,014	1,762,794
Restricted cash	-	500,000
Accounts receivable	281,218	108,116
Inventory	334,950	78,772
Prepays	80,488	84,107
	<u>2,029,670</u>	<u>2,533,789</u>
Property and equipment	144,309	173,946
Intangible assets	11,250	-
	<u>2,185,229</u>	<u>2,707,735</u>
Liabilities		
Current liabilities		
Accounts payable and accruals	484,618	454,867
Deferred revenue	179,036	159,884
Current portion of capital lease obligations	7,614	12,277
	<u>671,268</u>	<u>627,028</u>
Capital lease obligations	-	4,023
	<u>671,268</u>	<u>631,051</u>
Shareholders' equity		
Capital stock	18,865,706	17,418,263
Contributed surplus	2,563,312	2,370,019
Deficit	(19,915,057)	(17,711,598)
	<u>1,513,961</u>	<u>2,076,684</u>
	<u>2,185,229</u>	<u>2,707,735</u>

Going concern assumption (Note 2)

Commitments (Note 13)

Subsequent event (Note 15)

Approved by the Directors

"Paul Geyer"

Paul Geyer, Director

"James Heppell"

James Heppell, Director

Urodynamix Technologies Ltd.

Interim statement of cash flows

Quarter ended September 30, 2009 and 2008

(Unaudited - prepared by management)

	Three months ended		Nine Months Ended	
	September 30		September 30	
	2009	2008	2009	2008
	\$	\$	\$	\$
Operating activities				
Net loss	(638,287)	(737,341)	(2,203,459)	(2,305,822)
Items not involving cash				
Amortization of property and equipment	13,022	9,486	38,466	23,427
Amortization of intangibles	-	1,095	-	2,231
Loss on disposal of fixed assets	-	17,028	-	17,028
Amortization of deferred revenue	(15,246)	(9,141)	(33,528)	(24,827)
Write off of deferred non-cash tenant inducements	-	(10,016)	-	(10,016)
Amortization of non-cash tenant inducement	-	(1,046)	-	(4,186)
Stock-based compensation	43,829	72,592	193,294	233,377
	(596,682)	(657,343)	(2,005,227)	(2,068,788)
Change in non-cash working capital				
Accounts receivable	24,332	70,747	(173,102)	7,675
Inventory	(50,351)	5,772	(256,178)	(118,439)
Prepays	(10,410)	(51,069)	3,619	(33,422)
Accounts payable and accruals	(49,212)	(22,155)	29,751	(106,616)
Deferred revenue	6,392	-	52,680	49,490
	(675,931)	(654,048)	(2,348,457)	(2,270,100)
Investing activities				
Decrease in restricted cash	-	-	500,000	-
Property and equipment	-	(21,195)	(8,829)	(91,802)
	-	(21,195)	491,171	(91,802)
Financing activities				
Shares issued for cash pursuant to private placement, net of costs	1,436,192	-	1,436,192	-
Repayment of capital lease obligations	(2,274)	(4,916)	(8,686)	(15,524)
	1,433,918	(4,916)	1,427,506	(15,524)
Net decrease in cash and cash equivalents	757,987	(680,159)	(429,780)	(2,377,426)
Cash and cash equivalents, beginning of period	575,027	1,359,010	1,762,794	3,056,277
Cash and cash equivalents, end of period	1,333,014	678,851	1,333,014	678,851
Cash and cash equivalents are comprised of				
Cash	1,333,014	228,851	1,333,014	228,851
Cash equivalents	-	450,000	-	450,000
	1,333,014	678,851	1,333,014	678,851
Supplemental cash flow information:				
Interest paid	2,506	805	5,417	3,133
Taxes paid	-	-	-	-
Non-cash investing and financing items not included in cash flows				
Shares issued to third parties (Note 9)	11,250	48,750	11,250	107,500

Urodynamix Technologies Ltd.

Notes to the interim financial statements

For the nine months ended September 30, 2009

1. Description of Business

Urodynamix Technologies Ltd. (the "Company") is engaged in the development of non-invasive medical technology and diagnostic devices based on near-infrared spectroscopy ("NIRS"). The Company is focused on developing and commercializing breakthrough diagnostic technology for urological disorders such as urinary incontinence.

The Company's common shares trade under the symbol "URO" on the TSX Venture Exchange.

2. Going Concern Assumption

The Company has a history of operating losses and negative cash flows from operations in every period since inception as it is currently developing technology on a long-term basis with uncertain prospects, and has no significant source of revenue. For the nine month period ended September 30, 2009, the Company incurred an operating loss of \$2,166,630 (2008: \$2,307,206) and negative cash flow from operations of \$2,348,457 (2008: \$2,270,100). As of September 30, 2009 the Company had an accumulated deficit of \$19,915,057 (2008: \$16,589,388).

These financial statements have been prepared on the basis that the Company will continue as a going concern, which assumes the realization of assets and the settlement of liabilities in the normal course of business. The appropriateness of the going concern assumption is dependent upon the Company's ability to generate future profitable operations and to generate continued financial support in the form of share issuances. The Company plans to issue additional securities to fund the continued development of the technology; however, there can be no assurance that funds will be available on favorable terms, if at all.

These financial statements do not include any adjustments to the amounts and classification of assets and liabilities that might be necessary should the Company be unable to continue operations.

3. Basis of presentation

These interim unaudited financial statements of the Company have been prepared in accordance with Canadian generally accepted accounting principles. These accounting principles are consistent with those outlined in the annual audited financial statements of the Company for the year ended December 31, 2008, with the exception of the changes disclosed in Note 4. These interim financial statements do not include all disclosures normally provided in annual financial statements and should be read in conjunction with the Company's audited financial statements for the year ended December 31, 2008. In Management's opinion, the unaudited financial information includes all adjustments necessary to present fairly such information. Interim results are not necessarily indicative of the results expected for the fiscal year.

4. Changes in accounting policies

The Company has adopted the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3064, *Goodwill and Intangible Assets*.

(a) *Handbook Section 3064, Goodwill and Intangible Assets*

In February 2008, the CICA issued Section 3064, "Goodwill and Intangible Assets", replacing Section 3062, "Goodwill and Other Intangible Assets" and Section 3450, "Research and development costs". The Section will be applicable to financial statements relating to fiscal years beginning on or after October 1, 2008.

Accordingly, the Company has adopted the standards as of January 1, 2009. The new standard establishes the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets. The adoption of

Urodynamix Technologies Ltd.

Notes to the interim financial statements For the nine months ended September 30, 2009

4. Changes in accounting policies (continued)

the Section did not have a material impact on the financial statements of the Company.

(b) *International Financial Reporting Standards*

In February 2008, the Canadian Accounting Standards Board confirmed that the use of International Financial Reporting Standards ("IFRS") would be required for Canadian publicly accountable enterprises for years beginning on or after January 1, 2011. The Company has not yet begun to evaluate the impact of adopting IFRS.

5. Managing Capital

The Company's objectives, when managing capital, are to safeguard cash as well as maintain financial liquidity and flexibility in order to preserve its ability to meet financial obligations and deploy capital to grow its businesses.

In the definition of capital the Company includes, as disclosed on its balance sheet: shareholders' equity.

The Company's financial strategy is designed to maintain a flexible capital structure consistent with the objectives stated above and to respond to business growth opportunities and changes in economic conditions. In order to maintain or adjust its capital structure, the Company may issue shares or issue debt (secured, unsecured, convertible and/or other types of available debt instruments).

The Company is not subject to any externally imposed capital requirements.

6. Financial Instruments

(a) *Financial Instruments*

The Company has classified financial instruments as follows:

	2009	2008
Financial Assets		
Held for trading, measured at fair value		
Cash and cash equivalents	\$ 1,333,014	\$ 1,762,794
Restricted cash	-	500,000
Loans and receivables, measured at amortized cost	281,218	108,116
Financial Liabilities		
Other liabilities, measured at amortized cost		
Accounts payable and accrued liabilities	\$ 484,618	\$ 454,867
Capital lease obligations	7,614	16,300

Due to the short term nature of loans and receivables, accounts payable and accrued liabilities their fair value approximates amortized cost. The Company had no held-to-maturity or available-for-sale financial instruments at September 30, 2009 or at December 31, 2008.

Urodynamix Technologies Ltd.

Notes to the interim financial statements

For the nine months ended September 30, 2009

6. Financial Instruments (continued)

(b) Cash equivalents

At September 30, 2009, the Company held cash and had no cash equivalents on hand.

(c) Restricted cash

Under the terms of the \$2,500,000 financing completed November 5, 2008, \$500,000 of the subscription proceeds were deposited in escrow, to be held by a third party, until the approval by the Company's shareholders of BC Advantage Funds being a control person. In order for the funds to be released to the Company, the TSX Venture Exchange required that shareholders of the Corporation approve BC Advantage Funds becoming a control person of the Corporation. The Company submitted the matter to shareholders who approved at its AGM, held May 28, 2009. The restricted cash balance at September 30, 2009 was \$Nil (2008 \$Nil).

The Company has exposure to the following risks from its use of financial instruments: credit, interest rate, currency and liquidity risk. The Company reviews its risk management framework on a quarterly basis and makes adjustments as necessary.

Credit risk

The Company's financial instruments that are exposed to concentrations of credit risk consist of cash and cash equivalents and accounts receivable. Cash and cash equivalents are in place with a major Canadian financial institution.

The Company provides credit to its customers in the normal course of operations. The Company's credit risk review includes performing credit evaluations of the financial condition of its significant customers. For the period ended September 30, 2009, the Company sold its products through three distributors and as a result its trade receivable balance, at period end, was comprised of amounts due from Laborie Medical Technologies Inc and Medical Measurements Systems B.V.

Foreign currency risk

The Company's financial results are reported in Canadian dollars. The Company's earns revenue and sublicense fees and incurs certain expenses in United States dollars, and as such, is exposed to currency risk due to fluctuations in exchange rates of the Canadian dollar relative to the US dollar. The Company does not undertake significant hedging activities to reduce its exposure to this risk.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. The Company currently settles all of its financial obligations out of cash and cash equivalents. The ability to do so relies on the Company maintaining sufficient cash and cash equivalents in excess of anticipated needs. The Company has a history of operating losses, is currently developing technology on a long term basis with uncertain prospects, and has no significant source of revenue. The Company plans to issue additional securities to fund its operations however there can be no assurance that such funds will be available.

Urodynamix Technologies Ltd.

Notes to the interim financial statements For the nine months ended September 30, 2009

7. Capital stock

(a) *Authorized unlimited number of common shares, without par value*

	September 30 2009	September 30 2008
Outstanding, end of period	137,688,867	82,227,893

On September 11, 2009 the Company announced that it would raise a minimum of \$1,500,000 through the issuance of 30,000,000 common shares of the Company at a price of \$0.05 per common share. The non-brokered private placement closed on September 25, 2009. BC Advantage Funds, the Company's largest shareholder, and management and directors purchased 19,773,500 common shares for gross proceeds of \$988,975 with the remainder being purchased by third parties. The Company paid a 7.5% commission on sales of common shares to third parties.

(b) *Shares held in escrow*

At September 30, 2009, 130,000 (2008: 130,000) performance based shares were held in escrow. These shares may be released from escrow based on achievement of certain cumulative cash flow criteria. These shares are subject to cancellation on December 1, 2010 if not released from escrow before that date.

(c) *Stock options*

The Company adopted a rolling stock option plan (the "Plan"), approved by the Company's stockholders on September 7, 2006, and subsequently approved by the TSX Venture Exchange, which reserves for issuance under the Plan options to purchase a maximum of 10% of the issued and outstanding shares of the Company. Options granted vest over a minimum period of 18 months and a maximum period of five years, in equal installments on a quarterly, semi-annual or annual basis.

A summary of stock option activity follows:

	Nine months ended September 30,			
	2009		2008	
	Options to purchase common shares	Weighted average exercise price	Options to purchase common shares	Weighted average exercise price
Outstanding, beginning of period	7,625,500	\$ 0.17	6,718,500	\$ 0.16
Granted	2,000,000	0.10	1,406,000	0.21
Cancelled	(1,192,000)	0.18	(70,000)	0.19
Outstanding, at end of period	8,433,500	\$ 0.15	8,054,500	\$ 0.17
Exercisable, end of period	7,365,167	\$ 0.15	6,834,125	\$ 0.16

During the nine month period ended September 30, 2009, the Company recorded \$193,294 (2008: 233,377) of compensation expense related to vested stock options and the amortized portion of stock options granted which have not yet vested. The Company used the Black-Scholes option pricing model to estimate the fair value of the options at each grant date.

Urodynamix Technologies Ltd.

Notes to the interim financial statements
For the nine months ended September 30, 2009

7. Capital stock (continued)

(d) *Contributed surplus*

	September 30 2009	September 30 2008
	\$	\$
Opening, beginning of period	2,370,019	2,071,463
Stock compensation expense	193,294	233,377
Balance, end of period	2,563,313	2,304,840

8. Deferred Revenue

	September 30, 2009		
	Cost	Accumulated Amortization	Net Book Value
URO-NIRS distribution agreement (i)	\$ 103,875	31,642	72,233
AVID product sublicense (ii)	125,937	71,714	54,223
Suntek Medical Systems (iii)	46,188	-	46,188
Ho Yeung Co Ltd. (iv)	6,392	-	6,392
	<u>\$ 282,392</u>	<u>103,356</u>	<u>179,036</u>
		\$	\$
	December 31 2008		
	Cost	Accumulated Amortization	Net Book Value
URO-NIRS distribution agreement	\$ 103,875	13,954	89,919
AVID product sublicense	125,937	55,972	69,965
	<u>\$ 229,812</u>	<u>69,926</u>	<u>159,884</u>
		\$	\$

- (i) On October 22, 2007, the Company signed a seven-year Distribution Agreement with Laborie Medical Corp. ("Laborie"). The Agreement granted Laborie non-exclusive sales, marketing and distribution rights for the Company's URO-NIRS Bladder Monitor North America and Europe, and exclusive sales, marketing and distribution rights in South America, the Middle East and Asia.

Pursuant to the Distribution Agreement, Laborie paid the Company an upfront licensing fee of US\$50,000. On March 5, 2008, Laborie obtained 510(k) clearance from the U.S. Food and Drug Administration ("FDA") to market their urodynamics equipment with the Tetra™ Bladder Monitor System which is based on the Company's near infrared spectroscopy ("NIRS") technology. Under the terms of the Distribution Agreement, the receipt of FDA clearance triggered a payment of US\$50,000 to the Company by the distributor. Furthermore, with the receipt of FDA clearance prior to March 31, 2008, a refundable license fee provision was nullified. An additional payment of US\$50,000 may be earned by the Company upon the distributor

Urodynamix Technologies Ltd.

Notes to the interim financial statements

For the nine months ended September 30, 2009

8. Deferred Revenue (continued)

commencing commercial sales into certain foreign markets. Laborie is to provide limited funding of up to US\$300,000 for four individual clinical trials to be carried out by the Company as part of the two companies' effort to develop a marketable product.

- (ii) On May 15, 2006, the Company completed a sublicense agreement with a Japanese company ("the Sublicensee"), in respect to further development and marketing of the previously developed "AVID" technology. Terms of the agreement included an initial licensing fee of US\$120,000 and ongoing royalty payments at a rate of 5% on the Sublicensee's sales derived from the technology.
- (iii) On March 31, 2009, the Company received \$46,288, representing a 50% deposit, from Suntek Medical Systems. The remaining balance of \$46,288 is due upon receipt of Korean FDA approval and prior to shipment, expected by the Company in fiscal 2009.
- (iv) On September 15, 2009, the Company received \$6,392 as prepayment for a sales order that was subsequently shipped on October 15, 2009.

9. Revenue

	2009 Q3	2008 Q3	2009 YTD	2008 YTD
Product revenue	-	24,357	248,435	102,924
Deferred revenue	15,245	9,141	59,962	24,827
Total revenue	15,245	33,498	308,397	127,751

The Company's revenue is derived from product sales and from the recognition of deferred revenue from licensing fees negotiated between the Company and its distributors. The Company recognizes revenue from the sale of products when persuasive evidence of an arrangement exists, the product has been delivered, collection of the resulting receivable is considered reasonably assured and the fee is fixed and determinable. The Company recognizes revenue from license fees on a straight line basis over the term of the license.

10. Concentration of Credit Risk

As of September 30, 2009, the Company had three distributors for its recently developed URO-NIRS technology. For the foreseeable future the majority of the Company's revenues will be derived from its distributors and through direct sales efforts.

11. Related party transactions

During the nine months ended September 30, 2009, the Company incurred consulting fees of \$5,523 (2008: \$38,482) for technical services provided by one director.

These transactions were recorded at the exchange amount, which is the amount established and agreed to between the related parties.

Urodynamix Technologies Ltd.

Notes to the interim financial statements

For the nine months ended September 30, 2009

12. Capital lease obligations

The Company leases certain equipment and software with minimum lease payments as follows:

2009	\$	5,132
2010		2,034
2011		846
2012		-
		<u>8,012</u>
Less: interest at average rate of 12% per annum		<u>(398)</u>
		7,614
Less: current portion		<u>(7,614)</u>
	\$	<u>0</u>

13. Commitments

The Company is committed to payments, with respect to an agreement to lease its office premises. Future minimum payments including operating costs required under the lease are as follows:

2009	\$	51,686
2010		206,745
2011		155,059
2012		-
		<u>413,490</u>

14. Purchase of Patent Rights

On August 12, 2009 the TSX Venture Exchange accepted for filing documentation in connection with an assignment agreement dated May 18, 2007 between the Company and Dr. Sidney Radomski pursuant to which the Company has acquired rights, title and interest in and to the invention forming part of or otherwise relating to the ED provisional patent application 60/888012. The consideration paid was 150,000 common shares of the Company. The shares were issued August 13, 2009. The transaction was recorded at \$11,250, the fair market value of the total number of common shares issued by the Company to complete the transaction.

15. Subsequent event

Subsequent to the end of the quarter, on November 23, 2009 the Company announced that the American Medical Association (AMA) had published its 2010 Current Procedural Terminology (CPT) codes with additions, changes and deletions of billing codes for all medical specialties including urology. As of January 2010, CPT Code 51795, "Voiding pressure studies (VP); bladder voiding pressure, any technique," will be discontinued and be replaced by a new CPT Code 51728, "Complex cystometrogram (ie, calibrated electronic equipment); with voiding pressure studies (ie, bladder voiding pressure), any technique" and several other related codes. Urodynamix does not believe physicians can use the new code to bill for URO NIRS™ procedures once it is effective January 1, 2010, as the URONIRS™ procedure does not include the performance of a complex cystometrogram. Thus, physicians and other providers will need to use a miscellaneous code to submit claims for URONIRS™ procedures or work with payers on other coding alternatives. CPT codes are used to bill for physician procedures under the Medicare Physician Fee Schedule in the United States. They also are used by providers to submit claims to private payers.

Urodynamix Technologies Ltd.

Notes to the interim financial statements

For the nine months ended September 30, 2009

15. Subsequent event (continued)

The discontinuation of the 51795 Code likely will have a negative impact on US sales but will not affect sales of URONIRS™ in international markets. The Company currently is working with the American Urological Association (AUA) on potential coding options for URONIRS™ and anticipates that the issue will be discussed at the upcoming February 11-13, 2010 meeting of the AMA's CPT Editorial Panel. The Company will continue to market the device in the US during 2010 and will work with providers and payers to support sales efforts and claims submission.

16. Comparative figures

Certain of the comparative figures have been reclassified to conform to the current year's presentation; Sales and marketing expenses have been reclassified from general and administrative expenses.

Urodynamix Technologies Ltd.

Interim schedule of operating expenses

Quarter ended September 30, 2009 and 2008

(Unaudited - prepared by management)

	Three months ended		Nine months ended	
	September 30		September 30	
	2009	2008	2009	2008
	\$	\$	\$	\$
General and administrative expenses				
Wages	106,509	124,106	416,788	528,323
Rent	50,250	41,674	151,071	81,739
Professional fees	34,721	21,617	87,851	68,638
Travel	19,803	17,512	66,947	82,261
Investor relations	30,386	2,253	53,048	26,557
Directors fees	24,059	8,375	51,514	22,375
Regulatory and license fees	3,277	4,857	46,891	14,165
Insurance	14,674	6,923	33,886	19,157
Telephone and communications	8,447	8,124	27,046	21,191
Bad debt expense	20,909	-	20,909	-
Consulting	2,886	8,250	2,886	30,750
Other	8,233	18,297	51,513	66,896
	<u>324,154</u>	<u>261,988</u>	<u>1,010,350</u>	<u>962,052</u>
Research and development expenses				
Wages	141,315	186,243	568,551	602,822
Materials and prototyping	23,664	73,205	112,888	102,304
Patent related fees	21,146	9,140	51,238	81,886
Travel	6,798	15,431	34,056	51,199
Consulting	425	20,267	12,548	70,666
Trials	-	8,350	9,413	156,670
Other	7,640	15,788	23,539	44,933
Research funding	(63,189)	(27,531)	(149,396)	(41,597)
	<u>137,799</u>	<u>300,893</u>	<u>662,837</u>	<u>1,068,883</u>
Selling and marketing expenses				
Wages	42,561	64,184	192,978	64,184
Travel	34,579	15,364	67,250	27,330
Product placement and marketing	47,922	-	129,161	-
	<u>125,062</u>	<u>79,548</u>	<u>389,389</u>	<u>91,514</u>

Management's Discussion & Analysis

Urodynamix Technologies Ltd.

For the three months ended September 30, 2009



Management's Discussion and Analysis of Financial Condition and Results of Operations for the Three months Ended September 30, 2009

September 30, 2009

The following discussion and analysis (MD&A) should be read in conjunction with the unaudited interim financial statements and notes for the three months ended September 30, 2009 as well as the audited financial statements and notes for the year ended December 31, 2008. All financial information is prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP") and is expressed in Canadian dollars. Additional information relating to the Company can be found on the SEDAR website at www.sedar.com. This MD&A is dated November 30, 2009.

Forward-Looking Statements

Certain statements contained in this document constitute "forward-looking statements". When used in this document, the words "may", "would", "could", "will", "intend", "plan", "propose", "anticipate", "believe", "forecast", "estimate", "expect" and similar expressions, as they relate to the Company or its management, are intended to identify forward-looking statements. Such statements reflect the Company's current views with respect to future events and are subject to certain risks, uncertainties and assumptions. Many factors could cause the Company's actual results, performance or achievements to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements. Given these risks and uncertainties, readers are cautioned not to place undue reliance on such forward-looking statements. The Company does not intend, and does not assume any obligation, to update any such factors or to publicly announce the result of any revisions to any of the forward-looking statements contained herein to reflect future results, events or developments.

Risk Factors

An investment in our common shares involves a high degree of risk. You should carefully consider the specific factors described in our Annual Information Form filed on SEDAR, together with the cautionary statement under the caption "Forward — Looking Statements" in the beginning of this Report and the other information included in this report, before purchasing our common shares. The risks described in our Annual Information Form are not the only ones that we face. Additional risks that are not yet known to us or that we currently think are immaterial could also impair our business, financial condition or results of operations. If any of the following risks actually occurs, our business, financial condition or results of operations could be adversely affected. In such case, the trading price of our common shares could decline, and you may lose all or part of your investment.

Overview

UroDynamix Technologies Ltd. (UroDynamix) is a Canadian medical device company that is developing and commercializing non-invasive medical devices based on proprietary applications of near-infrared spectroscopy (NIRS) for the diagnosis of urological diseases and conditions, including:

- Urinary incontinence (UI) and Lower urinary tract symptoms (LUTS)
- Benign prostatic hyperplasia (BPH)
- Prostate cancer
- Erectile dysfunction (ED)

Results of Operations

Quarterly Financial Information

Net Loss

The net loss for the third quarter ended September 30, 2009, was \$638,287 or \$0.01 per share as compared with a net loss of \$737,341 or \$0.01 per share for the comparative period in 2008. While the Company's loss for the current period and on a year to date basis has decreased when compared to the prior year's comparative periods, the current year's results reflect a shift in the mix of operating expenses from research and development to selling, general and administrative as the Company focuses on introducing and commercializing the URO NIRS Bladder product. At the same time, as a result of lower than expected sales results the Company has taken measures to conserve cash and lower its monthly cash burn rate by decreasing headcount, lowering salary and wage levels and downsizing its research and development focus to the URO NIRS 2000 product and the transurethral microwave treatment (TUMT) project which is funded in part by a grant from the Industrial Research Assistance Program (IRAP). Management's focus remains on creating an initial sales footprint in the United States and continuing to lower the cash required to operate the business to conserve its financial resources.

Operating expenses at \$631,318 were \$71,400 lower than the same period of the prior year with increases in the current period's sales and marketing expenses, to support new product introduction, and general and administrative expenses, to support financing and investor relations initiatives being offset by decreases in research and development expenses, the result of fewer active research and development projects.

The current quarter's loss was negatively affected by foreign exchange a loss totaling \$5,132 resulting from the revaluation of net US dollar assets at September 30, 2009. Gross margin generated on sales was \$10,308 reflecting the amortization of deferred revenue in the quarter that has no corresponding cost of goods sold.

Subsequent to the end of the quarter, on November 23, 2009 the Company announced that the American Medical Association (AMA) has published its 2010 Current Procedural Terminology (CPT) codes with additions, changes and deletions of billing codes for all medical specialties including urology. As of January 2010, CPT Code 51795, "Voiding pressure studies (VP); bladder voiding pressure, any technique," will be discontinued and be replaced by a new CPT Code 51728, "Complex cystometrogram (ie, calibrated electronic equipment); with voiding pressure studies (ie, bladder voiding pressure), any technique" and several other related codes. Urodynamix does not believe physicians can use the new code to bill for URO NIRS™ procedures once it is effective January 1, 2010, as the URO NIRS™ procedure does not include the performance of a complex cystometrogram. Thus, physicians and other providers will need to use a miscellaneous code to submit claims for URO NIRS™ procedures or work with payers on other coding alternatives. CPT codes are used to bill for physician procedures under the Medicare Physician Fee Schedule in the United States. They also are used by providers to submit claims to private payers.

The discontinuation of the 51795 Code likely will have a negative impact on US sales but will not affect sales of URO NIRS™ in international markets. The Company currently is working with the American Urological Association (AUA) on potential coding options for URO NIRS™ and anticipates that the issue will be discussed at the upcoming February 11-13, 2010 meeting of the AMA's CPT Editorial Panel. The Company will continue to market the device in the US during 2010 and will work with providers and payers to support sales efforts and claims submission.

Revenues and Gross Margin

Revenues were \$15,245 for the third quarter ended September 30, 2009, compared with \$33,498 for the comparative period in 2008. The revenue for the third quarter ended September 30, 2009 was comprised

solely of revenue recognized from the amortization of licensing fees capitalized and amortized on a straight line basis over the term of the licenses. Revenue for the comparative period of the prior year was comprised of \$24,357 in product revenue, from the sale of URO NIRS Tetra units to its distributor Laborie Medical Technologies Ltd., and \$9,141 of license revenue.

Revenues year to date at \$308,397 is comprised of \$248,435 of product revenue from the sale of URO NIRS2000 and URO NIRS Tetra to its distributors and \$59,962 of license revenue. Revenue for the comparative period was comprised of \$102,924 of product revenue from the sale of URO NIRS Tetra and \$24,827 of license revenue.

Revenue for the current year has been significantly below plan due largely to due to the heightened uncertainty around reimbursement by the Centers for Medicare and Medicaid Services (CMS) across all sectors of the health care system including urology, where the Company has encountered higher than expected resistance to the adoption of its new technology. With the recent changes announced by the AMA, as described above, the Company expects sales to remain below plan in the United States. The Company continues to look for opportunities in international markets to offset the lower than expected United States sales.

Gross margin on a year to date basis at for the period has decreased from 58.1% to 41.4% reflecting the sales mix that included higher margin URO NIRS Tetra units in the prior year's sales and first time production run expenses and lower introductory pricing on the URO NIRS 2000 sales in the current period. Management expects that as sales volumes increase and the sales mix trends towards the sale of consumables that the margin percentage will increase.

General and Administrative Expenses

General and administrative Expenses were \$324,154 for the quarter ended September 30, 2009, compared with \$261,988 for the comparative period in 2008 with increases in rent expense, legal, directory fees and investor relations, in connection with the recent financing, being offset by lower wages, the result of decreased headcount and salary adjustments. General and administrative expense for the quarter also includes \$20,909 of bad debt expense related to a pricing concession provided to its distributor Medical Measurement Systems B.V.

Amounts by major sub-category for the quarter ended September 30, 2009 are as follows:

	<u>2009</u>	<u>2008</u>
Wages	\$ 106,509	\$ 124,106
Rent	50,250	41,674
Professional fees	34,721	21,617
Travel	19,803	17,512
Investor relations	30,386	2,253
Director fees	24,059	8,375
Regulatory and license fees	3,277	4,857
Insurance	14,674	6,923
Telephone and communications	8,447	8,124
Bad debt expense	20,909	-
Consulting	2,886	8,250
Other	<u>8,223</u>	<u>18,297</u>
	<u>\$ 324,154</u>	<u>\$ 261,988</u>

Sales and Marketing Expenses

Sales and marketing were \$125,062 for the quarter ended September 30, 2009, compared with \$79,548 for the comparative period in 2008. The increase over the comparative period of the prior year is due to the ramp up sales and marketing activity to support direct sales efforts and the

development of existing and new sales channels for the URO NIRS 2000. Product that has been used for demonstration or placed with potential customers is expensed upon shipment.

Amounts by major sub-category are as follows:

	<u>2008</u>	<u>2007</u>
Wages	\$ 42,561	\$ 64,184
Travel	34,579	15,364
Product placement and marketing	<u>47,922</u>	<u>-</u>
	<u>\$ 125,062</u>	<u>\$ 79,548</u>

R&D Expenses

The Company has several NIRS development projects ongoing including:

- Urinary incontinence (UI)
- Lower urinary tract symptoms (LUTS)
- Prostate cancer and benign prostatic hyperplasia (BPH)

R&D Expenses were \$137,799 for the third quarter ended September 30, 2009, compared with \$300,893 for the comparative period in 2008. The decrease in current period R&D expenses is primarily attributable to the lower development and prototype expenditures being incurred on the URO NIRS 2000 due to the product's substantial completion, lower salary and wages, the result of lower headcount and wage reductions and increased external funding from the Industrial Research Assistance Program (IRAP). R&D headcount has decreased to five staff at September 30, 2009 as compared to nine staff at September 30, 2008.

External research funding in the third quarter of 2009 at \$63,189, compares to \$27,531 for the same period of the prior year. The current year amounts represent funding payments from the IRAP for the transurethral microwave treatment (TUMT) project while the prior year amount represents funding for a project related to using NIRS for prostate cancer screening and detection. The increase in funding over the comparative period of the prior year is due to the total amount of IRAP project funding approved and paid by IRAP in relation to qualifying expenditures.

R&D expenses by major sub-category are as follows:

	<u>2008</u>	<u>2007</u>
Wages	\$ 141,315	\$ 186,243
Materials and prototyping	23,664	73,205
Patent related fees	21,146	9,140
Travel	6,798	15,431
Consulting	425	20,267
Trials	-	8,350
Other	7,640	15,788
Research Funding	<u>(63,189)</u>	<u>(27,531)</u>
	<u>\$ 137,799</u>	<u>\$ 300,893</u>

Depreciation and Amortization

Amortization expense relates to the amortization of capital and intangible assets. For the quarter ended September 30, 2009, total amortization expense was \$13,022 compared with \$9,729 for the comparative period in 2008. The increase in amortization is due to the purchase of manufacturing equipment required for the production of the URO-NIRS product as well as expenditures on information technology.

Related Party Transactions

During the nine months ended September 30, 2009, the Company incurred consulting fees of \$5,523 (2008 year - \$26,500) for technical services provided by one director.

Liquidity and Capital Resources

Since its inception, Urodynamix Technologies Ltd. has financed R&D activities, operations and capital expenditures primarily from public and private equity financing and various government grants and repayable loans. Until the Company receives substantial revenue from product sales, it plans to issue more securities at such time as it believes additional capital could be obtained. However, there can be no assurance that such funds can be available on favorable terms, if at all.

As at September 30, 2009, the Company had cash and cash equivalents of \$1,333,014 and working capital of \$1,337,603. This compares with cash and cash equivalents of \$2,262,794 and a working capital position of \$1,906,761 at December 31, 2008.

Under the terms of the \$2,500,000 financing completed November 5, 2008, \$500,000 of the subscription proceeds were deposited in escrow, to be held by a third party, until the approval by the Company's shareholders of BC Advantage Funds being a control person. The Company submitted the matter to its shareholders at its May 28, 2009 AGM and received approval. The restricted cash balance of \$500,000 was released June 2, 2009.

Cash used in operating activities was \$675,931 for the three months ended September 30, 2009 compared with \$654,048 for the comparative period in 2008. The increase in cash used in operations is due primarily to the build up of URO NIRS 2000 product and subsequent investment in working capital. While activities in the same period of the prior year were focused on prototype design and assembly, clinical trials and R&D headcount, the focus in the current period had been on the manufacturing of the URO NIRS 2000 and business and market development to support the product introduction and sale.

Accounts receivable increased from \$108,116 at December 31, 2008 to \$281,218 at September 30, 2009 due to the sale of URO NIRS 2000 product in the first quarter of fiscal 2009. Inventory levels rose from \$78,772 at December 31, 2008 to \$334,950 due to the build-up of URO NIRS 2000 finished product in the current year. Prepaid expenses decreased to \$80,488 at September 30, 2009 from \$84,107 at December 31, 2008. Prepaid expenses consist mainly of deposits and prepaid insurance premiums.

Accounts payable increased from \$454,867 at December 31, 2008 to \$484,618 at September 30, 2009 due primarily to inventory build costs related to the URO NIRS 2000. Deferred revenue increased from \$159,884 at December 31, 2008 to \$179,036 at September 30, 2009 due to the receipt of \$52,680 from customers as deposits on orders expected to be shipped in fiscal 2009.

Cash provided by or used in investing activities was \$Nil for the three months ended September 30, 2009, compared with \$21,195 for the purchase of capital assets in the comparative period in 2008.

On September 25, 2009 the Company closed a non-brokered private placement raising \$1,436,192 through the issuance of 30,311,010 common shares at a purchase price of \$0.05 per common share. The funds will be used for continued product development and for operating working capital purposes as it continues to commercialize the URO NIRS 2000.

Management believes that cash flows from operations and funds on hand will be insufficient to fund its cash requirements through the next 12 months. Accordingly, the Company plans to issue more securities at

such time as it believes additional capital could be obtained. There can be no assurance that such funds can be available on favorable terms, if at all.

Outstanding Share and Warrant Data

The authorized share capital of Urodynamix Technologies Ltd. is unlimited. At November 30, 2009 there were 137,688,867 common shares outstanding. There were 8,433,500 common shares reserved for issuance upon the exercise of stock options outstanding under the Company's Stock Option Plan and 130,000 performance shares were held in escrow. The performance shares may be released from escrow on the achievement of cumulative cashflow criteria and are subject to cancellation on December 1, 2010 if not released from escrow before that date.

Critical Accounting Policies and Estimates

The interim unaudited financial statements of the Company have been prepared on the basis that the Company will continue as a going concern, which assumes the realization of assets and the settlement of liabilities in the normal course of business. The appropriateness of the going concern assumption is dependent upon the Company's ability to generate future profitable operations and/or generate continued financial support in the form of share issuances. The Company plans to issue more securities at such time as it believes additional capital could be obtained. There can be no assurance that such funds can be available on favorable terms, if at all.

These interim unaudited financial statements do not include any adjustments to the amounts and classification of assets and liabilities that might be necessary should the Company be unable to continue operations.

These interim unaudited financial statements are prepared in accordance with Canadian generally accepted accounting principles.

Basis of presentation

These interim unaudited financial statements of the Company have been prepared in accordance with Canadian generally accepted accounting principles. These accounting principles are consistent with those outlined in the annual audited financial statements of the Company for the year ended December 31, 2008, with the exception of the changes disclosed in note 4. These interim financial statements do not include all disclosures normally provided in annual financial statements and should be read in conjunction with the Company's audited financial statements for the year ended December 31, 2008. In Management's opinion, the unaudited financial information includes all adjustments necessary to present fairly such information. Interim results are not necessarily indicative of the results expected for the fiscal year.

Changes in accounting policies

During the current fiscal year, the Company has adopted the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3064, *Goodwill and Intangible Assets*.

(a) Handbook Section 3064, Goodwill and Intangible Assets

In February 2008, the CICA issued Section 3064, "*Goodwill and Intangible Assets*", replacing Section 3062, "*Goodwill and Other Intangible Assets*" and Section 3450, "*Research and development costs*". The Section will be applicable to financial statements relating to fiscal years beginning on or after October 1, 2008.

Accordingly, the Company has adopted the standards for its fiscal year beginning January 1, 2009. The new standard establishes the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets. The adoption of this Section will not have a material impact on the financial statements of the Company.

(b) International Financial Reporting Standards

In February 2008, the Canadian Accounting Standards Board confirmed that the use of International Financial Reporting Standards ("IFRS") would be required for Canadian publicly accountable enterprises for years beginning on or after January 1, 2011. The Company has not yet begun to evaluate the impact of adopting IFRS.

Summary of Quarterly Results

The following table sets out selected quarterly information for the first three quarters of fiscal 2009 and the previous eight quarters of fiscal 2008 and 2007.

Quarter Ended 2009	March 31	September 30	September 30	December 31
	\$	\$	\$	\$
Revenue	271,281	21,871	15,245	n/a
Loss	(655,238)	(909,934)	(638,287)	n/a
Loss per common share	(0.01)	(0.01)	(0.01)	n/a
Quarter Ended 2008	March 31	September 30	September 30	December 31
	\$	\$	\$	\$
Revenue	21,382	72,871	33,498	61,142
Loss	(722,081)	(846,400)	(723,360)	(1,136,191)
Loss per common share	(0.01)	(0.01)	(0.01)	(0.01)
Quarter Ended 2007	March 31	September 30	September 30	December 31
	\$	\$	\$	\$
Revenue	9,237	5,679	5,631	5,247
Loss	(619,852)	(641,176)	(628,561)	(733,098)
Loss per common share	(0.01)	(0.01)	(0.01)	(0.01)

CORPORATE DATA

SEPTEMBER 30, 2009

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DIRECTORS AND OFFICERS

Barry J. Allen	President & Chief Executive Officer
Jonathan Jackson	Chief Financial Officer
Dr. Luya Li	Vice-President, Technology
Dave Bonar	Vice-President, Sales and Marketing
Pierre Leduc	Chairman
Dr. David Goodkin	Director
James Heppell	Director
Paul Geyer	Director
Dr. Zeid Mohamedali	Director
Tanner Philp	Director & Corporate Secretary

CAPITALIZATION

Authorized:	Unlimited
Issued:	137,688,867
Escrow:	130,000
Options:	8,433,500
Warrants:	Nil

SOLICITOR

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