

Financial statements of

Urodynamix Technologies Ltd.

December 31, 2007

Urodynamix Technologies Ltd.

December 31, 2007

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Auditors' report

To the Shareholders of
Urodynamix Technologies Ltd.

We have audited the balance sheet of Urodynamix Technologies Ltd. as at December 31, 2007 and the statements of operations, comprehensive loss and deficit, shareholders' equity and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The financial statements as at December 31, 2006 and for the year then ended were audited by other auditors who expressed an opinion without reservation on those statements in their report dated February 28, 2007.

(Signed) Deloitte & Touche LLP

Chartered Accountants
March 10, 2008

Urodynamix Technologies Ltd.

Statement of operations, comprehensive loss and deficit year ended December 31, 2007

	2007	2006
	\$	\$
Revenue	25,794	12,165
Expenses		
General and administrative (Schedule)	1,231,298	859,770
Research and development (Schedule)	1,187,016	630,972
Stock-based compensation (Note 8 (b))	304,546	270,381
Amortization of property and equipment	16,827	20,433
Marketing	-	5,513
	2,739,687	1,787,069
Loss from operations	(2,713,893)	(1,774,904)
Other income (expenses)		
Write-off of intangible assets (Note 5)	-	(165,049)
Interest expense	(6,216)	(5,073)
Interest income	97,422	47,782
	91,206	(122,340)
Net loss and comprehensive loss	(2,622,687)	(1,897,244)
Deficit, beginning of year	(11,660,879)	(9,763,635)
Deficit, end of year	(14,283,566)	(11,660,879)
Basic and diluted loss per share	(0.04)	(0.04)
Weighted average number of common shares outstanding	73,162,415	53,175,128

Urodynamix Technologies Ltd.

Statement of shareholders' equity year ended December 31, 2007

	Common shares		Warrants		Contributed surplus	Total capital	Deficit	Total shareholders' equity
	Issued and outstanding	Amount	Issued and outstanding	Amount				
	Number	\$	Number	\$	\$	\$	\$	\$
Balance, December 31, 2005	43,859,392	8,565,120	32,220,454	1,017,230	1,153,049	10,735,399	(9,763,635)	971,764
Net loss	-	-	-	-	-	-	(1,897,244)	(1,897,244)
Issued as new warrants (Note 8 (c))	-	-	9,818,000	354,400	-	354,400	-	354,400
Issued on exercise of amended warrants (Note 8 (c))	19,636,000	2,475,362	(19,636,000)	(417,534)	-	2,057,828	-	2,057,828
Warrants exercised	1,183,095	128,517	(1,183,095)	(26,080)	-	102,437	-	102,437
Stock options exercised	508,000	113,896	-	-	(42,319)	71,577	-	71,577
Stock-based compensation	-	-	-	-	270,381	270,381	-	270,381
Expiration of warrants	-	-	(4,265,454)	(414,100)	414,100	-	-	-
Cancellation of options	-	-	-	-	(11,297)	(11,297)	-	(11,297)
Balance, December 31, 2006	65,186,487	11,282,895	16,953,905	513,916	1,783,914	13,580,725	(11,660,879)	1,919,846
Net loss	-	-	-	-	-	-	(2,622,687)	(2,622,687)
Warrants exercised	16,116,406	3,469,312	(16,116,406)	(488,117)	-	2,981,195	-	2,981,195
Stock options exercised	425,000	92,296	-	-	(42,796)	49,500	-	49,500
Stock-based compensation	-	-	-	-	304,546	304,546	-	304,546
Expiration of warrants	-	-	(837,499)	(25,799)	25,799	-	-	-
Cancellation of options	-	-	-	-	-	-	-	-
Balance, December 31, 2007	81,727,893	14,844,503	-	-	2,071,463	16,915,966	(14,283,566)	2,632,400

Urodynamix Technologies Ltd.

Balance sheet

as at December 31, 2007

	2007	2006
	\$	\$
Assets		
Current assets		
Cash and cash equivalents	3,056,277	2,063,784
Receivables	68,069	91,142
Prepays	50,124	40,902
	3,174,470	2,195,828
Property and equipment (Note 4)	68,039	41,854
	3,242,509	2,237,682
Liabilities		
Current liabilities		
Payables and accruals	418,408	206,998
Deferred revenue (Note 7)	145,339	73,077
Current portion of capital lease obligations (Note 6)	13,156	12,234
	576,903	292,309
Deferred tenant inducements received	14,202	14,202
Capital lease obligations (Note 6)	19,004	11,325
	610,109	317,836
Shareholders' equity		
Capital stock (Note 8 (a))	14,844,503	11,282,895
Warrants (Note 8 (c))	-	513,916
Contributed surplus (Note 8 (d))	2,071,463	1,783,914
Deficit	(14,283,566)	(11,660,879)
	2,632,400	1,919,846
	3,242,509	2,237,682

Continuance of operations (Note 1)

Commitments (Note 11)

Subsequent event (Note 13)

Approved by the Directors

(Signed) Paul Geyer

Paul Geyer, Director

(Signed) James Heppell

James Heppell, Director

Urodynamix Technologies Ltd.

Statement of cash flows year ended December 31, 2007

	2007	2006
	\$	\$
Operating activities		
Net loss	(2,622,687)	(1,897,244)
Items not involving cash		
Amortization of property and equipment	16,827	20,433
Non-cash tenant inducement	-	4,506
Write-off of intangible assets	-	165,049
Stock-based compensation	304,546	270,381
Non-cash research and development expenses	-	6,892
	(2,301,314)	(1,429,983)
Change in non-cash working capital		
Receivables	23,073	(81,311)
Prepays	(9,222)	(26,680)
Payables and accruals	211,410	127,976
Deferred revenue	72,262	70,101
	(2,003,791)	(1,339,897)
Investing activities		
Property and equipment	(15,525)	(2,199)
Intangible assets	-	(39,840)
	(15,525)	(42,039)
Financing activities		
Shares and units issued for cash, net of financing fees	3,030,695	2,574,945
Repayment of capital lease obligations (Note 6)	(18,886)	(14,320)
	3,011,809	2,560,625
Net increase in cash and cash equivalents	992,493	1,178,689
Cash and cash equivalents, beginning of year	2,063,784	885,095
Cash and cash equivalents, end of year	3,056,277	2,063,784
Cash and cash equivalents are comprised of		
Cash	106,277	63,784
Short term investments	2,950,000	2,000,000
	3,056,277	2,063,784

Supplemental cash flow information (Note 12)

Urodynamix Technologies Ltd.

Notes to the financial statements

December 31, 2007

1. Operations and going concern assumption

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 and related critical care applications including compartment syndrome.

Effective June 20, 2006, the Company changed its name to Urodynamix Technologies Ltd. from MDX Medical Inc., having obtained shareholder approval for the change. The Company's common shares now trade under the symbol "URO" (previously "MDX") on the TSX Venture Exchange.

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.

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/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 on favourable terms; however, there can be no assurance that such funds will be available on favourable 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.

2. Summary of significant accounting policies

(a) *Basis of presentation*

These financial statements are prepared in accordance with Canadian generally accepted accounting principles, and include the accounts of the Company and its wholly-owned inactive subsidiary, Voyager Innovations Inc. (until December 16, 2005, the date of legal dissolution of the subsidiary).

(b) *Use of estimates*

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from management's estimates.

(c) *Cash and cash equivalents*

The Company considers deposits in banks, certificates of deposits and short-term investments with maturities of three months or less as cash and cash equivalents.

Urodynamix Technologies Ltd.

Notes to the financial statements

December 31, 2007

2. Summary of significant accounting policies (continued)

(d) *Property and equipment*

Property and equipment is recorded at cost less accumulated amortization. Amortization is provided for on the declining balance method using the following annual rates:

Office furniture and equipment	20%
Computer and laboratory equipment	30%
Computer software	100%

(e) *Deferred tenant inducements*

Inducements to lease operating premises which are received by the Company, including rent free periods, are deferred and recognized as a reduction of rent expense evenly over the term of the lease.

(f) *Intangible assets*

Intangible assets are recorded at cost. Cost is amortized over the estimated useful life of the asset unless that life is determined to be indefinite. Intangible assets subject to amortization are reviewed for impairment in accordance with the provisions applying to long-lived assets.

Intangible assets not subject to amortization are tested for impairment on at least an annual basis. If the fair value of the intangible asset is determined to be less than the carrying amount, an impairment loss is recognized in the amount of that difference.

Cost of intangible assets includes amounts expended for applications for patents, provided that the Company considers recovery of the amounts to be reasonably assured.

(g) *Research and product development costs*

Product development costs include costs of materials and service contracts incurred by the Company which are directly attributable to the development of the NIRS technology. Such costs incurred prior to the establishment of technological and financial feasibility of the product being developed are expensed as incurred. Development costs are capitalized when technological, financial and market feasibility is established. The Company has not deferred any costs during the periods presented.

To the extent that estimated future cash flows from products under development less estimated future cash outflows is less than the carrying amount of capitalized development costs, an impairment loss is recognized.

Research costs are expensed as incurred.

(h) *Impairment of long-lived assets*

The Company reviews for the impairment of long-lived assets, including property and equipment, and intangible assets subject to amortization, whenever changes in circumstances indicate that the carrying amount of an asset may not be recoverable from expected future cash flows. The assessment of recoverability is made based on projected undiscounted future net cash flows that are directly associated with the asset's use and eventual disposition. The amount of the impairment, if any, is measured as the difference between the carrying amount and the fair value of the impaired assets and is presented as an impairment loss in the current period.

Urodynamix Technologies Ltd.

Notes to the financial statements

December 31, 2007

2. Summary of significant accounting policies (continued)

(i) *Stock options*

All stock-based awards made to employees and non-employees are measured and recognized using the fair value based method. Compensation cost is measured at fair value at the date of grant and is expensed on a straight-line basis over the vesting period.

(j) *Government assistance*

The Company receives government grants under the Industrial Research Assistance Program. Any government assistance received by the Company is recorded as a reduction of the associated expense or property and equipment. The assistance is recorded in the accounts when there is reasonable assurance that the assistance will be realized.

(k) *Share issue costs*

Professional, consulting and regulatory fees as well as other costs directly attributable to financing transactions are reported as deferred financing costs until the transactions are completed. Share issue costs are charged to capital stock when the related shares are issued. Costs relating to financing transactions that are not completed are charged to operations.

The costs of issuing units of shares and warrants are allocated entirely to the shares issued.

(l) *Future income taxes*

The Company follows the asset and liability method of accounting for income taxes. Future income taxes are provided for temporary differences between the tax basis of an asset or liability and its reported amount in the financial statements that will result in taxable or deductible amounts in future periods. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Future income tax assets, if any, are recognized only to the extent that, in the opinion of management, it is more likely than not that they will be realized.

Future income tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of substantive enactment.

(m) *Financial instruments*

The Company holds various financial instruments including cash and cash equivalents, receivables, payables and accruals, and capital lease obligations. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from the financial instruments. The carrying amounts of these financial instruments approximate their fair value, unless otherwise noted.

The Company earns sublicense revenue and incurs certain expenses in United States dollars, and as such, is exposed to currency risk due to fluctuations in exchange rates. The Company does not undertake significant hedging activities to reduce its exposure to this risk.

Urodynamix Technologies Ltd.

Notes to the financial statements

December 31, 2007

2. Summary of significant accounting policies (continued)

(n) *Revenue recognition*

The Company recognizes revenue from sales 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.

Revenue from license agreements is recognized on a straight-line basis over the term of the related agreement.

Royalty revenue earned under sublicensing agreements is recognized as royalties are earned, provided collection from the sublicensee is considered reasonably assured. Non-refundable advance payments received under sublicense agreements are deferred and recognized as revenue on a straight-line basis over the term of the agreement.

(o) *Loss per share*

Loss per share is calculated using the weighted average number of common shares outstanding. The Company uses the treasury stock method to calculate fully diluted earnings per share. Under this method, all options whose average exercise price is less than or equal to the average share price for the year are assumed to be exercised and all convertible securities are assumed to be converted at the average share price during the period. Under this standard, certain shares that are considered contingently issuable, such as escrowed shares subject to release based on performance criteria, are excluded from the calculation of weighted average common shares outstanding. Diluted per share amounts in loss years are not presented, as the effect of outstanding options and warrants is anti-dilutive.

(p) *Share and warrant units*

The proceeds from units issued are allocated between shares and warrants on the basis of their estimated fair values.

3. Adoption of new accounting standards

Effective with the commencement of the 2007 fiscal year, the Company has adopted the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1530, *Comprehensive Income*, Handbook Section 3855, *Financial Instruments - Recognition and Measurement*, Handbook Section 3861, *Financial Instruments - Disclosure and Presentation*, Handbook Section 3865, *Hedges*, and Handbook Section 1506, *Accounting Changes*.

(a) *Section 1530, Comprehensive Income*

This standard requires the presentation of a statement of comprehensive income and its components. Comprehensive income includes both net earnings and other comprehensive income. Other comprehensive income includes holding gains and losses on available for sale investments, gains and losses on certain derivative financial instruments and foreign currency gains and losses relating to self-sustaining foreign operations, all of which are not included in the calculation of net earnings until realized. The adoption of this section had no impact upon the Company's financial statements.

Urodynamix Technologies Ltd.

Notes to the financial statements

December 31, 2007

3. Adoption of new accounting standards (continued)

(b) *Section 3855, Financial Instruments - Recognition and Measurement*

Under the new standards, all financial instruments are classified into one of the following five categories: held-for-trading, held-to-maturity investments, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments, including derivatives, are included on the balance sheet and are measured at fair value with the exception of loans and receivables, investments held-to-maturity and other financial liabilities, which will be measured at amortized cost. Subsequent measurement and recognition of changes in fair value of financial instruments depend on their initial classification.

Held-for-trading financial investments are measured at fair value and all gains and losses are included in net income in the period in which they arise. Available-for-sale financial instruments are measured at fair value with revaluation gains and losses included in other comprehensive income until the asset is removed from the balance sheet.

Upon adoption of the new standards, the Company designated its cash and equivalents as held-for-trading, which are measured at fair value.

The Company has also classified its accounts receivables and other receivables as "Loans and receivables", and its accounts payable and accrued liabilities and capital lease obligations as "Other financial liabilities", all of which are measured at amortized cost.

These new standards have to be applied without restatement of prior period amounts. The adoption of these standards had no impact on net loss.

Financial instruments that potentially subject the Company to a significant concentration of credit risk consist primarily of cash and equivalents. The Company limits its exposure to credit loss by placing its cash and cash equivalents with high credit quality financial institutions.

The carrying amounts of cash and cash, receivables, payables and accruals and capital lease obligations approximate their fair values.

(c) *Section 3861, Financial Instruments - Disclosure and Presentation*

This standard sets out standards which address the presentation of financial instruments and non-financial derivatives, and identifies the related information that should be disclosed. These standards also revise the requirements for entities to provide accounting policy disclosures, including disclosure of the criteria for designating as held-for-trading those financial assets or liabilities that are not required to be classified as held-for-trading; whether categories of normal purchases and sales of financial assets are accounted for at trade date or settlement date; the accounting policy for transaction costs on financial assets and financial liabilities classified as other than held-for-trading; and provides several new requirements for disclosure about fair value.

The Company has chosen to recognize all transaction costs to the statement of operations on all financial liabilities that have been designated as other than held for trading.

Urodynamix Technologies Ltd.

Notes to the financial statements

December 31, 2007

3. Adoption of New Accounting Standards (continued)

(d) *Section 3865, Hedging*

This standard specifies the circumstances under which hedge accounting is permissible and how hedge accounting may be performed. The Company currently does not hold any financial instruments designated for hedge accounting.

(e) *Section 1506, Accounting Changes*

Section 1506 revised the standards on changes in accounting policy, estimates or errors to require a change in accounting policy to be applied retrospectively (unless doing so is impracticable or is specified otherwise by a new accounting standard), changes in estimates to be recorded prospectively, and prior period errors to be corrected retrospectively. Voluntary changes in accounting policy are allowed only when they result in financial statements that provide reliable and more relevant information. In addition, these revised standards call for enhanced disclosures about the effects of changes in accounting policies, estimates and errors on the financial statements. The impact of this new standard cannot be determined until such time as the Company makes a change in accounting policy, other than the changes resulting from the implementation of the new CICA Handbook standards discussed in this note.

(f) *Recent pronouncements in accounting standards*

- (i) Handbook Section 1400, *General Standards of Financial Statement Presentation*, was amended to include the requirements for assessing and disclosing an entity's ability to continue as a going concern from International Financial Reporting Standard IAS 1.

This section is applicable to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008, with earlier adoption encouraged. The Company will adopt this section in fiscal 2008 but this will not have an impact on the financial statement disclosures as the Company is currently complying with this requirement.

- (ii) Handbook Section 1535, *Capital Disclosures*, requires disclosure about capital and is harmonized with recently amended International Financial Reporting Standard IAS 1. The standard is applicable to all entities, regardless of whether they have financial instruments.

Entities are required to disclose information about its objectives, policies and processes for managing capital, as well as its compliance with any externally imposed capital requirements, where they may exist.

This section is applicable to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007, with earlier adoption encouraged. The Company will adopt this section in fiscal 2008.

Urodynamix Technologies Ltd.

Notes to the financial statements

December 31, 2007

3. Adoption of New Accounting Standards (continued)

(f) *Recent pronouncements in accounting standards (continued)*

- (iii) Handbook Section 3031, *Inventories*, replaces Handbook Section 3030, *Inventories*, and provides the Canadian equivalent to International Financial Reporting Standard IAS 2.

This section provides guidance on the determination of cost, including allocation of overheads and other costs to inventory, allocation of fixed production overhead based on normal capacity levels, with unallocated overhead expensed as incurred. The section requires the consistent use (by type of inventory with similar nature and use) of either first-in, first-out ("FIFO") or weighted average cost formula to measure the cost of other inventories. The use of the last-in, first-out ("LIFO") formula to measure the cost of inventories is no longer acceptable. Under this section, when the circumstances that previously caused inventories to be written down below cost no longer exist or when there is clear evidence of an increase in net realizable value because of changed economic circumstances, the amount of the write-down is reversed, but the reversal is limited to the amount of the original write-down. This section also includes expanded disclosure requirements.

This section applies to interim and annual financial statements for fiscal years beginning on or after January 1, 2008. When applying this section for the first time, an entity can either apply this section to the opening inventory for the period and adjust opening retained earnings by the difference in the measurement of opening inventory (prior periods are not restated) or to retrospectively and restate prior periods in accordance with Handbook Section 1506, *Accounting Changes*.

The Company will adopt this section in fiscal 2008.

- (iv) Handbook Section 3064, *Goodwill and Intangible Assets*, replaces Handbook Section 3062, *Goodwill and Other Intangible Assets*.

This section establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. Certain items are specifically excluded from the scope of the section including the initial recognition, measurement and disclosure of goodwill and intangible assets acquired in a business combination, the establishment of a new cost basis for intangible assets as part of a comprehensive revaluation, intangible assets held by an entity for sale in the ordinary course of business, non-current intangible assets classified as held for sale or included in a disposal group that is classified as held for sale, etc.

Rights under licensing agreements for items such as patents and copyrights are within the scope of this section. This section also applies to, among other things, expenditure on advertising, training, start-up and research and development activities. Research and development activities are directed to the development of knowledge. Therefore, although these activities may result in an asset with physical substance, for example, a prototype, the physical element of the asset is secondary to its intangible component, i.e., the knowledge embodied in it.

Urodynamix Technologies Ltd.

Notes to the financial statements

December 31, 2007

3. Adoption of New Accounting Standards (continued)

(f) *Recent pronouncements in accounting standards (continued)*

(iv) (continued)

This section applies to annual and interim financial statements relating to fiscal years beginning on or after October 1, 2008. Earlier adoption is encouraged. The Company will adopt this section in fiscal 2009. The impact that this section will have on the Company's financial position and results of operations is not known.

(v) Handbook Section 3862, *Financial Instruments - Disclosures*

Section 3862 replaces the disclosure requirements of previous Section 3861, *Financial Instruments - Disclosure and Presentation*, and converges with International Financial Reporting Standard IFRS 7. This section applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007. The Company will adopt this section in fiscal 2008.

(vi) Handbook Section 3863, *Financial Instruments - Presentation*

Section 3863 is consistent with previous Section 3861 which was based on International Financial Reporting Standard IAS 32. This section applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007. The Company will adopt this section in fiscal 2008.

(vii) International Financial Reporting Standards

In May 2007, the CICA published an updated version of its "Implementation Plan for Incorporating International Financial Reporting Standards ("IFRS") into Canadian GAAP". This plan includes an outline of the key decisions that the CICA will need to make as it implements the Strategic Plan for publicly accountable enterprises that will converge Canadian generally accepted accounting standards with IFRS. It is anticipated that the decision on the changeover date from current Canadian GAAP to IFRS will be made by March 31, 2008.

4. Property and equipment

	2007		
	Cost	Accumulated amortization	Net book value
	\$	\$	\$
Office furniture and equipment	63,226	26,360	36,866
Computer and laboratory equipment	136,050	104,877	31,173
	199,276	131,237	68,039

Urodynamix Technologies Ltd.

Notes to the financial statements

December 31, 2007

4. Property and equipment (continued)

	2006		
	Cost	Accumulated amortization	Net book value
	\$	\$	\$
Office furniture and equipment	30,492	20,691	9,801
Computer and laboratory equipment	125,772	93,719	32,053
	156,264	114,410	41,854

Included in property and equipment are assets held under capital leases as follows:

	2007		
	Cost	Accumulated amortization	Net book value
	\$	\$	\$
Office furniture and equipment	32,987	7,038	25,949
Computer and laboratory equipment	58,554	45,778	12,776
	91,541	52,816	38,725

	2006		
	Cost	Accumulated amortization	Net book value
	\$	\$	\$
Office furniture and equipment	5,500	3,771	1,729
Computer and laboratory equipment	58,554	40,302	18,252
	64,054	44,073	19,981

A capital lease is one that is considered to transfer substantially all of the benefits and risks incident to ownership of property to the Company.

5. Intangible assets

	2007			
	Cost	Accumulated amortization	Write-off	Net book value
	\$	\$	\$	\$
NIRS Technology (a)	-	-	-	-
AVID System (b)	-	-	-	-
	-	-	-	-

Urodynamix Technologies Ltd.

Notes to the financial statements

December 31, 2007

5. Intangible assets (continued)

				2006
	Cost	Accumulated amortization	Write-off	Net book value
	\$	\$	\$	\$
NIRS Technology (a)	165,049	-	165,049	-
AVID System (b)	-	-	-	-
	165,049	-	165,049	-

- (a) The Company entered into a license agreement with the University of British Columbia ("UBC"), dated May 30, 2005 which was subsequently amended, in respect to the near infrared spectrophotometry ("NIRS") technology. The NIRS technology is a non-invasive diagnostic medical device that is to be used for the diagnosis and assessment of bladder disease. The agreement is to expire at the later of 20 years from the date of the agreement or upon the last expiry of any patent obtained related to the technology. The terms of the agreement required the Company to pay an initial license fee of \$100,000 (half of which was paid by the issuance of 714,286 common shares of the Company at \$0.07 per share, royalties in respect to future revenues (including sublicensing revenues, with minimum annual required royalties of \$30,000, \$40,000 and \$50,000 to be paid on June 1, 2009, 2010 and 2011, respectively) \$50,000 to be paid on June 1 each year thereafter during the term of the agreement, reimbursement of patent costs incurred by UBC related to the technology, an annual maintenance fee of \$2,000, and milestone payments of up to 1,000,000 shares of the Company based on achievement of certain regulatory approval and sales targets. The Company may only terminate the agreement in the event of a breach of the agreement by UBC.

The agreement grants to the Company an exclusive worldwide license to use and sublicense the technology and any improvements and to market products developed using the technology, subject to the royalty. The Company completed a prototype late in the 2006 year. During the 2007 year, the Company capitalized costs from UBC for patents of \$Nil (2006 - \$39,840).

The development of the technology is actively proceeding. However, the development is long-term in nature and consequently, specific future cash flows to be earned from the technology cannot be accurately predicted, and the remaining carrying amount of the intangible asset has been written off at December 31, 2006. An impairment loss of \$165,049 has been charged to operations for the 2006 year.

- (b) The Company holds a licensing agreement with UBC in respect to the advanced verification of integration dose ("AVID") technology. The agreement dated June 30, 2000 expires at the later of 20 years or upon the last expiry of any patent related to the technology. The agreement grants to the Company an exclusive worldwide license to use and sublicense the technology.

Early in the 2006 year, the Company discontinued direct sales of the product, and commenced negotiations of a sale or licensing of its rights to the AVID technology. As the outcome of the negotiations and the Company's ability to recover its investment were uncertain at December 31, 2005, the remaining carrying cost of the AVID system was written off, and an impairment loss of \$82,958 charged against operations for the 2005 year.

The Company subsequently completed a sublicense agreement as described in Note 7.

Urodynamix Technologies Ltd.

Notes to the financial statements

December 31, 2007

6. Capital lease obligations

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

	\$
2008	22,762
2009	12,555
2010	1,908
	<hr/> 37,225
Less: Interest at average rate of 19%	(5,065)
	<hr/> 32,160
Less: Current portion	(19,004)
	<hr/> <hr/> 13,156

7. Sublicense agreement

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 AVID technology described in Note 5 (b)). Terms of the agreement include 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 AVID technology.

The Sublicensee failed to make a final payment of US\$40,000 in respect to the initial fee. The Company is pursuing collection of the amount, but recovery is uncertain. Consequently, an allowance against the receivable amount was recorded on December 31, 2006.

On April 30, 2007, the Sublicensee made the final payment of US\$40,000 as required under the agreement. Consequently, the allowance against the receivable that was provided at December 31, 2006 has been reversed.

The sublicense fee received of \$125,937, net of related expenses of \$10,337, will be recognized as revenue on a straight-line basis over the five year term of the agreement, assuming the agreement is maintained. Revenue of \$24,535 (2006 - \$10,436) was recognized for the year.

Urodynamix Technologies Ltd.

Notes to the financial statements

December 31, 2007

8. Capital stock

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

(b) *Stock options*

The Company adopted a rolling stock option plan (the "Plan"), approved by the Company's stockholders on June 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 instalments on a quarterly, semi-annual or annual basis.

A summary of stock option activity follows:

	Number	Weighted average exercise price per share \$
Outstanding, December 31, 2005	2,940,000	0.15
Granted	3,974,000	0.15
Exercised	(508,000)	0.12
Cancelled	(572,000)	0.20
Outstanding, December 31, 2006	5,834,000	0.15
Granted	1,359,500	0.20
Exercised	(425,000)	0.12
Cancelled	(50,000)	0.15
Outstanding, December 31, 2007	6,718,500	0.16

Urodynamix Technologies Ltd.

Notes to the financial statements

December 31, 2007

8. Capital stock (continued)

(b) Stock options (continued)

The following tables summarize stock options outstanding and exercisable at December 31, 2007:

Number outstanding	Average remaining contractual life (in years)	Weighted average exercise price per share \$
250,000	1.2	0.30
200,000	1.7	0.19
1,535,000	2.8	0.12
200,000	3.4	0.13
3,174,000	3.8	0.15
325,000	3.0	0.15
150,000	4.1	0.14
600,000	4.4	0.24
114,500	4.7	0.23
170,000	4.8	0.28
6,718,500	3.5	0.16

Number exercisable	Average remaining contractual life (in years)	Weighted average exercise price per share \$
4,470,375	3.3	0.16

During the year ended December 31, 2007, the Company recorded \$304,546 (2006 - \$270,381) 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 using the following weighted average assumptions:

	2007	2006
Risk free interest rate	4.13%	3.76%
Dividend yield	Nil	Nil
Expected volatility	110%	113%
Expected life of option	5 years	5 years

The weighted average fair value of options granted during the 2007 year was \$0.17 (2006 - \$0.15).

Urodynamix Technologies Ltd.

Notes to the financial statements

December 31, 2007

8. Capital stock (continued)

(b) *Stock options (continued)*

Option pricing models require the input of highly subjective assumptions including the expected price volatility. Changes in the subjective input assumptions may materially affect the fair value estimate.

(c) *Warrants*

A summary of share warrant activity follows:

	2007	2006
Opening	16,953,905	32,220,454
Issued	-	9,818,000
Exercised	(16,116,406)	(20,819,095)
Expired	(837,499)	(4,265,454)
Ending	-	16,953,905

During the year ended December 31, 2006, under a warrant incentive program, on the issuance of 1,936,000 common shares on exercise of warrants for gross proceeds of \$2.4 million, 1,407,000 warrants (with a \$0.10 exercise price) and 18,229,000 of the warrants (with a \$0.125 exercise price) were exchanged for 9,818,000 new warrants with an exercise of \$0.20 per share.

The fair values of the warrants issued have been estimated using the Black-Scholes option pricing model using the following assumptions:

	2007	2006
Risk free interest rate	N/A	4.18%
Dividend yield	N/A	Nil
Expected volatility	N/A	114%
Expected life of warrant	N/A	1 year

(d) *Contributed surplus*

	2007	2006
	\$	\$
Opening	1,783,914	1,153,049
Stock compensation expense	304,546	270,381
Options exercised	(42,796)	(42,319)
Options cancelled	-	(11,297)
Expiration of warrants	25,799	414,100
Ending	2,071,463	1,783,914

Urodynamix Technologies Ltd.

Notes to the financial statements

December 31, 2007

9. Income taxes

Income tax expense recorded in these financial statements differs from the amount that would be computed by applying federal and provincial statutory income tax rates to loss before income taxes, detailed as follows:

	2007	2006
	\$	\$
Loss before income taxes	(2,622,687)	(1,897,244)
Expected tax recovery at combined federal and provincial rates of 34.1% (2006 - 34.1%)	(894,336)	(646,960)
Benefit of unrecognized tax asset	739,000	440,034
Stock-based compensation	103,850	92,200
Other	51,486	114,726
Income tax provision	-	-

Future income tax assets consist of the following temporary differences:

	2007	2006
	\$	\$
Losses carried forward	2,267,500	2,127,000
Intangible assets	282,500	357,000
Property and equipment	39,000	46,000
Financing fees	44,600	82,000
Other	43,100	30,000
Valuation allowance	(2,676,700)	(2,642,000)
	-	-

The Company has operating losses totalling approximately \$8,334,000 available to offset future taxable income. These operating losses expire if unutilized as follows:

	\$
2008	317,000
2009	315,000
2010	931,000
2014	1,944,000
2015	1,079,000
2026	1,501,000
2027	2,249,000
	8,336,000

Urodynamix Technologies Ltd.

Notes to the financial statements

December 31, 2007

10. Related party transactions

(a) During the 2006 year, the Company incurred consulting fees of \$150,000 for services provided by a company controlled by the CEO. During the 2007 year, the CEO's services were provided under an employment contract.

(b) During the 2007 year, the Company incurred consulting fees of \$12,550 (2006 - \$Nil) for technical services provided by a director.

(c) During the 2007 year, a total of 887,000 warrants at an exercise price of \$0.20 and 333,000 warrants at an exercise price of \$0.10 were exercised by directors and companies controlled by or related to directors, for total proceeds of \$210,700.

During the 2006 year, a total of 1,441,000 warrants at an exercise price of \$0.125 and 333,000 warrants at an exercise price of \$0.10 were exercised by directors and companies controlled by or related to directors, for total proceeds of \$213,425.

(d) During the 2007 year, a total of 183,000 warrants at an exercise price of \$0.20 were exercised by officers for total proceeds of \$36,600.

During the 2006 year, a total of 199,000 warrants at an exercise price of \$0.10 and 167,000 warrants at an exercise price of \$0.125 were exercised by officers for total proceeds of \$40,775.

(e) During the 2007 year, a total of 3,333,000 warrants at an exercise price of \$0.20 were exercised by a company having a significant share position in and influence over the Company for total proceeds of \$666,600.

During the 2006 year, a total of 6,666,000 warrants at an exercise price of \$0.125 were exercised by a company having a significant share position in and influence over the Company for total proceeds of \$833,250.

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

11. Commitments

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

	\$
2008	84,938
2009	81,342
2010	70,781
	<hr/> 237,061 <hr/>

(b) The Company agreed on May 10, 2007 to issue 150,000 common shares of the Company to a co-inventor for the assignment of all rights, title and interest to the invention forming part of a provisional Erectile Dysfunction patent application. The asset acquisition is conditional on the Company's ability to obtain sufficient data in order to carry out a formal patent application by March 31, 2008.

Urodynamix Technologies Ltd.

Notes to the financial statements

December 31, 2007

11. Commitments (continued)

- (c) The Company agreed on September 28, 2007 to issue 150,000 common shares of the Company to a director of the Company for the assignment of all rights, title and interest to the invention forming part of a provisional Prostate Imaging patent application. The asset acquisition is conditional on the Company's ability to obtain sufficient data in order to carry out a formal patent application by May 1, 2008.
- (d) On May 17, 2007, the Company signed a binding seven-year Term Sheet for Distribution with Laborie Medical Technologies Inc. ("Laborie"). The Company completed the definitive Distribution Agreement on October 22, 2007. The agreement is to grant Laborie non-exclusive sales, marketing and distribution rights for the Company's URO-NIRS Bladder Monitor in North America and Europe, and exclusive sales, marketing and distribution rights in South America, the Middle East and Asia.

Pursuant to the Term Sheet, Laborie has paid an upfront licensing fee of US\$50,000, is to pay certain milestone payments of US\$100,000, guarantee minimum sales quantities, and provide limited funding of up to US\$300,000 each for four individual clinical trials to be carried out by the Company as part of the two companies' effort to develop a marketable product.

A 50% portion of the upfront licensing fee is refundable if certain regulatory approvals are not obtained prior to March 31, 2008.

12. Supplementary cash flow information

- (a) Cash paid for income taxes and interest is summarized as follows:

	2007	2006
	\$	\$
Cash paid for		
Income taxes	-	-
Interest	6,216	5,073

- (b) Significant non-cash transactions occurring during the 2007 and 2006 years were as follows:

- (i) During the 2007 year, the Company issued options to the ASTC Science World Society, a charitable organization, to acquire 325,000 common shares of the Company. The estimated fair value of these options, totaling \$39,325 has been fully charged to operations for the 2007 year.
- (ii) During the 2007 year, the Company acquired property and equipment at a cost of \$27,487 for which it assumed obligations under capital leases.

During the 2006 year, the Company acquired property and equipment at a cost of \$6,153 and incurred research and development costs of \$6,892 for which it assumed obligations under capital leases.

Urodynamix Technologies Ltd.

Notes to the financial statements

December 31, 2007

13. Subsequent events

- (a) On January 3, 2008, the Company granted 145,000 stock options to employees of the Company, all at an exercise price of \$0.19 per share, expiring on January 3, 2013.
- (b) On March 10, 2008, the Company granted 481,000 stock options to employees of the Company, all at an exercise price of \$0.24 per share, expiring on March 9, 2013.
- (c) On March 5, 2008, the Company's distribution partner, Laborie Medical Technologies Inc., obtained 510(k) clearance from the U.S. Food and Drug Administration ("FDA") to market their urodynamics equipment with the Tetra™ Bladder Monitor System for non-invasive bladder testing. Tetra™ is a non-invasive diagnostic medical device based on Urodynamix's near infrared spectroscopy ("NIRS") technology.

The FDA clearance triggered milestone events written into the Company's contracts with its distribution partner and its licensor:

- (i) Under the terms of its distribution agreement with Laborie Medical Technologies Inc. (see Note 11 (d)), the receipt of FDA clearance requires Laborie to make a payment of US\$50,000 to the Company. Furthermore, with the receipt of FDA clearance prior to March 31, 2008, the refundable license fee provision is nullified. An additional payment of US\$50,000 may be earned by the Company upon Laborie's commercial sales into certain foreign markets.
- (ii) Under the terms of its license agreement with UBC (see Note 5 (a)), the receipt of FDA clearance requires a milestone payment of 250,000 common shares of the Company to UBC. An additional 750,000 common shares of the Company may be issued upon the achievement of further milestones related to revenue targets and foreign market regulatory clearance.

Urodynamix Technologies Ltd.

Schedule of general and administrative expenses and research and development expenses year ended December 31, 2007

	2007	2006
	\$	\$
General and administrative expenses		
Wages	718,679	401,871
Other	253,905	160,672
Professional fees	88,367	48,628
Rent	78,908	68,810
Investor relations	48,513	29,789
Consulting (Note 10 (a))	42,926	150,000
	1,231,298	859,770
Research and development expenses		
Wages	507,054	427,765
Trials	381,400	221,547
Other	223,711	94,351
Consulting	164,204	49,780
Research funding	(89,353)	(162,471)
	1,187,016	630,972



Management's Discussion and Analysis of Financial Condition and Results of Operations for the Year ended December 31, 2007

December 31, 2007

The following discussion and analysis should be read in conjunction with the audited financial statements and notes for the year ended December 31, 2007 and 2006 accompanying this report. 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

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.

Overview

UroDynamix is a Canadian medical device company that develops and commercializes 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)
- Lower urinary tract symptoms (LUTS)
- Prostate cancer and benign prostatic hyperplasia (BPH)
- Erectile dysfunction (ED)
- Intra-abdominal hypertension (IAH) and abdominal compartment syndrome (ACS)

NIRS UroDynamics (URO-NIRS): the device is being developed to aid in the non-invasive painless diagnosis of diseases of the bladder during testing of patients with UI and bladder dysfunction. Management believes that URO-NIRS can deliver similar critical data to the current standard of care which involves an expensive dual catheterization procedure. Clinical trials were concluded during 2006 and 2007 with positive results that established the effectiveness of the URO-NIRS device in identifying various bladder dysfunction in both men and women. In May 2007, the Company signed a binding seven-year Term Sheet for Distribution with Laborie Medical Technologies Inc. ("Laborie"). In December 2007, Laborie filed a 510(k) submission to the U.S. Food and Drug Administration (FDA) seeking clearance to market the Tetra(TM) Bladder Monitor System, a new device for non-invasive testing and evaluation of bladder activity based on UroDynamix's near infrared spectroscopy (NIRS) technology. UroDynamix will work with Laborie to complete global marketing trials prior to the commercial launch of the URO-NIRS device in 2008.

NIRS Intra-abdominal Pressure Monitor (NIRS IAP): The Company filed a patent application in early 2007 extending its intellectual property portfolio to encompass IAP monitoring applications. Management believes that its NIRS IAP device will allow the early detection of ischemia caused by IAP and replace more invasive diagnostic methods by allowing continuous, non-invasive, and cost-effective monitoring of patients

at risk of developing Abdominal Compartment Syndrome (ACS), thereby greatly reducing costs and patient morbidity and improving mortality. On January 17, 2007, the Company released results of a preliminary clinical study that demonstrated that the NIRS IAP device is completely safe over long periods of monitoring and a significant association was found between NIRS readings and changes in IAP. A second clinical trial is in progress and will enroll up to 70 ICU patients and monitor subjects continuously for up to 7 days.

NIRS Prostate (NIRS DRE): In October 2007, UroDynamix further expanded its NIRS clinical development program to include a new application that measures blood flow in the prostate gland. Management believes that this NIRS prostate sensor can aid in the diagnosis and localization of prostate cancer and prostate disease during a routine annual screening test known as the digital rectal examination ("DRE"). A preliminary study has been completed that examined the evaluation of blood flow in the prostate gland in 10 prostate cancer patients. The study was conducted during otherwise routine DREs and confirmed that the prototype NIRS prostate sensor was able to quantify and evaluate blood flow in different quadrants of the prostate and could potentially aid in the diagnosis of disease by reducing the quantity or improving the accuracy of biopsies. UroDynamix plans to initiate further clinical trials prior to the end of 2008.

NIRS Erectile Dysfunction (NIRS ED): During 2006, UroDynamix initiated a study to evaluate the use of its proprietary NIRS technology as an improved ED diagnostic device for men with erectile dysfunction. Initial clinical studies carried out by UroDynamix have shown that NIRS sensors can objectively and reproducibly measure blood flow in the penis. In the fourth quarter of 2007, the Company will conduct a new study on 12 male patients undergoing radical prostatectomy surgery to confirm that NIRS can measure differences in blood flow in patients before and after a bilateral nerve-sparing radical prostatectomy procedure.

NIRS Urodynamics

On May 30, 2005, the Company signed a license agreement with the University of British Columbia (the "UBC License Agreement") for an innovative diagnostic technology developed at Vancouver General Hospital. The technology uses NIRS to aid in the non-invasive diagnosis of diseases of the bladder during diagnostic testing of patients with UI and bladder dysfunction. The terms of the license agreement with UBC grant UroDynamix exclusive global rights to develop, manufacture, and market this technology.

UI is a widespread condition with severe economic and psychosocial impact. The World Health Organization estimated in 2002 that UI affects over 200 million people worldwide. UI most often affects middle-aged women, long-term care residents, and those with spinal cord injuries. The condition is a particular problem in the developing world where complications of childbirth leave many women with damage to their bladders.

UI also affects men who are frequently characterized as having lower urinary tract symptoms ("LUTS"). LUTS is a common term used to describe the range of urinary symptoms that may be linked with prostate disease or changes in the bladder caused by neurological disease, stroke, Parkinson's disease, certain drugs, infections or irritable bladder. The prevalence of LUTS is believed to be as high as 90% in men aged 50 to 80 years old.

LUTS are often associated with an enlarged prostate; however symptoms alone cannot be used to make a diagnosis since they may reflect the effects of prostate disease as well as functional changes in the bladder.

The current diagnosis relies upon the International Prostate Symptom Score questionnaire, developed more than a decade ago, in combination with urinalysis, the serum prostate-specific antigen (PSA) test and digital rectal examination (DRE). Invasive pressure-flow urodynamics studies currently offer the only way to differentiate between bladder outlet obstruction and a failing detrusor muscle.

Accurate diagnosis is important to ensure appropriate treatment of the underlying disease. Therapies now available to treat LUTS related to prostate disease include open surgical procedures, transurethral surgical procedures, microwave therapy, and drugs such as alpha blockers or 5-alpha-reductase inhibitors.

Pressure urodynamics ("UDS") is the current standard of care for the diagnosis of various bladder diseases.

UDS procedures include a variety of clinical tests including a highly invasive filling procedure which involves simultaneous urethral and rectal catheterization followed by direct observation of voiding. As a result, the collection of data is limited by a subject's willingness to be catheterized and the data itself is compromised by the unnatural setting and urethral catheter interfering with voiding. In addition, the use of catheters

may pose a significant health risk in some patients, particularly in elderly and pediatric patients. The direct monetary costs of UDS are high due to the labour-intensive nature of the procedures which require a nurse or technician trained in safe catheterization procedures in addition to the urologist.

By comparison, Urodynamix's URO-NIRS non-invasive device is comprised of an external control unit and optical sensor that is placed externally on the abdomen over the bladder. The painless non-invasive exam uses near-infrared light to gather data about bladder health and function. Management believes that URO-NIRS can deliver similar critical data to the dual catheter procedure. NIRS works by emitting near-infrared light into the tissue, and recording the light received at a detector optode fixed to the skin. The tissue absorbs light differently dependent on the presence of cells such as oxygen-carrying molecules in the blood, called hemoglobins, and membrane-bound proteins that convert energy, called cytochromes. Accordingly, the changes in the bladder can be measured and analyzed by interpreting the changes in the amount of hemoglobin and cytochromes present in the bladder.

Management believes there are several factors that could positively affect the URO-NIRS device's sales potential:

- URO-NIRS is less invasive than existing tests and should significantly decrease the number of patients who decline existing invasive UDS. If the test gains broad acceptance, it has the potential to become standard of care for regular diagnosis and monitoring of disease in over 200 million people effected worldwide;
- positive diagnosis leads to positive treatment: UI can be treated successfully in over 80% of cases, if properly diagnosed;
- favorable demographics; bladder conditions are generally age-related, thus the aging "baby-boom" will increase the population group that suffer from bladder issues and therefore need a similar test;
- URO-NIRS employs broadly accepted, safe, non-invasive and easy to use optical-sensing technology, thus easing the adoption of a new diagnostic device by doctors; and
- potential for new applications to address unmet clinical needs for URO-NIRS in obstetrics, pediatrics and long-term care.

The first US provisional patent application, "Spectrophotometric Technique for Patient Monitoring of Bladder Oxygenation", was filed on October 15, 2003 by UBC. Research and further refinement of the technique, data analysis and development of specialized equipment continued, including human trials, and a second provisional patent application "Methods and Apparatus for Urodynamic Analysis" was filed in Canada and in the United States on July 7, 2004. These provisional applications were subsequently combined, along with additional human clinical data, in a Patent Cooperation Treaty ("PCT") application filed on October 14, 2004.

Further to this PCT application, in April 2006, the Company sought to extend its intellectual property coverage by filing patent applications in China, Japan and major European countries. The Company intends to file additional patent applications to further strengthen the URO-NIRS patent portfolio in a variety of clinical applications.

Under the terms of the UBC License Agreement, Urodynamix has the exclusive global rights to develop, manufacture and market the URO-NIRS technology.

In a series of clinical trials that were completed in 2006 and 2007, Urodynamix established the effectiveness of the URO-NIRS device in identifying various bladder dysfunctions in both men and women. The trials were separated into two categories, Male Prostate Studies and Female Stress Urinary Incontinence and Overactive Bladder Studies.

- The first NIRS Prostate Study concluded that URO-NIRS provided quantifiable evidence of the presence or absence of obstruction in this study population. Furthermore, URO-NIRS obtained this information through a non-invasive and simple procedure that is not currently otherwise available. See press release dated July 5, 2006 for full details.

- The first NIRS SUI and OAB Study showed that URO-NIRS parameters can provide measurable and significant clinical data during the urodynamic procedure for female subjects previously diagnosed with OAB and SUI. See press release dated July 31, 2006 for full details.
- The second NIRS Prostate Study identified changes in the NIRS patterns corresponding with physiological changes, allowing the Company to develop a series of algorithms that predict the presence or absence of obstruction in subjects when NIRS is used in conjunction with uroflow versus catheter-based cystometry and uroflow combined. The study found NIRS patterns plus uroflow data accurately predicted the conditions in 32 out of 34 subjects. The data from the second NIRS Prostate Study corroborate results obtained in the first NIRS Prostate Study conducted at the UBC Bladder Care Centre. See press release dated February 26, 2007 for full details
- The findings from the second NIRS Female SUI & OAB Study allowed the Company to develop a technique to help diagnose the presence or absence of SUI or OAB in female subjects when NIRS is used in conjunction with non-invasive uroflow and/or catheter-based filling procedures. The data showed that NIRS measurements in subjects diagnosed with UI differed measurably and significantly from normal subjects during the study. The study concluded that NIRS provided quantifiable evidence of pathologies in this study population. The data from the Company's second Female UI Study corroborate results obtained in its first study carried out at the UBC Bladder Care Centre. Future studies will focus on categorizing different female pathologies. See press release dated March 8, 2007 for full details.
- Based on previous study findings, the Company commenced a study whose primary objective was to determine whether NIRS data in conjunction with uroflowmetry (maximum flow rate, Qmax) and ultrasonic bladder volume measurement (post-void residual urine volume, or PVR) agreed with the current standard of catheter-based urodynamics testing (UDS). The study met both of its primary efficacy endpoints by correctly predicting obstructed and unobstructed classification compared to the investigator's diagnostic decision made with catheter-based UDS. The trial results were included as part of the 510(k) pre-market notification submitted to the FDA by Laborie Medical Technologies Inc. for the Tetra™ Bladder Monitor System, which is based on UroDynamix's NIRS technology. See press release dated December 19, 2007 for full details.

On May 17, 2007, the Company signed a binding seven-year Term Sheet for Distribution with Laborie Medical Technologies Inc. The definitive Distribution Agreement was concluded on October 22, 2007. The agreement grants Laborie non-exclusive sales, marketing and distribution rights for the Company's URO-NIRS Bladder Monitor in North America and Europe, and exclusive sales, marketing and distribution rights in South America, the Middle East and Asia.

Pursuant to the Term Sheet, Laborie has paid an upfront licensing fee of US\$50,000, is to pay certain milestone payments of US\$100,000, guarantee minimum sales quantities, and provide limited funding of up to US\$300,000 each for four individual clinical trials to be carried out by UroDynamix as part of the two companies' effort to develop a marketable product.

A 50% portion of the upfront licensing fee is refundable if certain regulatory approvals are not obtained prior to March 31, 2008.

NIRS Intra-Abdominal Pressure (NIRS IAP)

During 2006, UroDynamix expanded its NIRS clinical development program to include a new invention for monitoring IAP and abdominal ischemia. The Company filed a patent application in early 2007 extending its intellectual property portfolio to encompass these applications and released the results of a preliminary clinical study completed at Foothills Medical Center in Calgary, Alberta.

Compartment Syndrome (CS) is a common but life-threatening condition that occurs in the abdomen and limbs following traumatic, hemorrhagic, surgical or vascular injuries. Inflammatory response, capillary leakage and tissue edema lead to elevated pressure within a closed anatomical space, resulting in decreased blood flow to the tissues and organs, followed by ischemia, sepsis and other severe

complications. If undiagnosed and untreated, CS may cause cellular damage that results in necrosis, organ failure and ultimately death.

UroDynamix will initially target applications related to Abdominal Compartment Syndrome ("ACS"), which is multiple organ dysfunction caused by intra-abdominal hypertension ("IAH"). Physical examination alone is not an accurate indicator of IAH in critically ill patients, and current diagnostic procedures rely on manual, intermittent and highly invasive catheter- or needle-based IAP measurements. Published data indicate that elevated IAP presents in up to 50% of trauma ICU patients and is therefore a condition that should be monitored in all patients. Untreated elevations in IAP can advance to ACS, which is considered fatal if untreated.

Management believes that its NIRS platform technology will allow the early detection of ischemia caused by IAP and replace more invasive diagnostic methods by allowing continuous, non-invasive, and cost-effective monitoring of patients at risk of developing IAP and ACS, thereby greatly reducing morbidity and improving mortality. The Company has developed a prototype device whereby changes in IAP are measured via application of a NIRS patch to the skin over the abdominal wall.

UroDynamix intends to develop an automated continuous monitoring device that can trend IAP like a vital sign, allowing critical care practitioners to improve patient outcomes by alerting caregivers to the onset of ACS. In addition, automated IAP monitoring may allow hospitals to increase productivity and control ICU costs by reducing or eliminating the need for manual IAP measurements.

According to the American Hospital Association, approximately 60,000 adult ICU beds are used to treat over 4 million adult ICU patients in the United States each year. This represents a significant initial market opportunity for the Company's IAP monitoring devices and recurring consumables revenue in 24/7 monitoring of these critical care patients. There is also a significant need for continuous IAP monitoring in cardiac, GI and orthopedic surgical recovery units, and emergency departments.

The ACS development program is expected to be highly synergistic with the Company's URO-NIRS urology product because the two applications will share a very similar hardware platform and will employ the same development team.

UroDynamix intends to pursue strategic relationships with medical device companies that are active in acute care patient monitoring. The acute care patient monitoring market is currently dominated by companies such as GE Healthcare, Philips Medical Systems, Spacelabs Healthcare, Nellcor-Tyco, Massimo Corporation and Drägerwerk AK.

The US provisional patent application, entitled "Methods and Systems for Detecting a Condition of Compartment Syndrome," was filed on 1 December 2006. The application contains broad claims that cover methods and systems for detecting CS using NIRS techniques including sensor replacement, IAP calibration and calculation.

In a preliminary clinical study of ICU patients at Foothills Medical Center in Calgary, the Company's prototype device was used to continuously record NIRS data over 24 hours of patients at risk of developing ACS. IAP measurements were concurrently recorded from the bladder using intermittent conventional invasive techniques. Sixty-six paired IAP and NIRS readings were taken from ten ICU patients (4 to 12 IAP observations per patient). The study demonstrated that the NIRS technique is completely safe over long periods of monitoring and a significant inverse association was found between NIRS readings and changes in IAP at a significance level of 0.992 (p equals 0.008).

The preliminary findings suggest that NIRS could be an asset for trauma and critical care specialists faced with managing IAP and ACS. Given the high incidence and risks associated with ACS, IAP should be monitored on a continuous basis in all critically ill patients, however there is currently no continuous non-invasive method for monitoring IAP. Improved detection of elevated IAP may reduce costs and morbidity in the ICU, and furthermore, the prevention of ACS may translate into fewer patient deaths.

Health Canada has approved and the Company is funding a second phase of the Foothills ACS study, which will enroll up to 70 ICU patients and will monitor subjects continuously for up to 7 days. Data from this larger patient population is expected to be available in 2008.

NIRS Prostate (NIRS DRE)

In October 2007, UroDynamix expanded its NIRS clinical development program to include a new application that uses NIRS to measure blood flow in the prostate gland. Management believes that this NIRS prostate sensor could potentially aid in the diagnosis and localization of prostate cancer and other diseases of the prostate during a routine screening test known as the digital rectal examination ("DRE").

Preliminary studies completed by Dr. Zeid Mohamedali, MD, PhD, FRCS(C), a member of UroDynamix's Board of Directors, at the Adult and Pediatric Urology Clinic at the Central Island Research Center examined the evaluation of blood flow in the prostate gland in 10 prostate cancer patients. The studies were conducted during otherwise routine DREs and confirmed that the prototype NIRS prostate sensor was able to quantify and evaluate blood flow in different quadrants of the prostate and potentially aid in the diagnosis of disease by reducing the quantity or improving the accuracy of biopsies.

Prostate cancer is the most commonly diagnosed non-skin cancer in North America and the third most common cause of cancer death in men. Every year an estimated 250,000 new cases of prostate cancer are diagnosed in North America and over 30,000 men die from the disease. One in 10 men in United States will have prostate cancer diagnosed in his lifetime.

Screening tools for detecting prostate cancer include PSA testing and the DRE, or digital rectal exam. Current prostate cancer screening tests are plagued by false negatives and inconclusive positives, and often result in the uncertain circumstance known as watchful waiting.

In the United States, Europe and Japan, the target market for a NIRS prostate imaging test consists of an estimated 150 million men whom the American Cancer Society believes should be offered the DRE yearly beginning at age 50 in average risk populations and at age 45 in high risk populations, such as African Americans and men who have a first-degree relative diagnosed with prostate cancer.

UroDynamix plans to advance its prostate imaging development program and initiate further clinical trials prior to year end. The Company previously filed provisional patent applications with the U.S. Patent and Trademark Office protecting methods of monitoring blood flow in the prostate gland using NIRS technology and intends to develop a body of intellectual property around this invention.

NIRS Erectile Dysfunction (NIRS ED)

During 2006, UroDynamix expanded its NIRS clinical development program to include applications in ED. The Company developed this technology in collaboration with Dr. Sidney Radomski, MD, Associate Professor of Surgery (Urology) at the University of Toronto. UroDynamix has filed a patent application with the United States Patent and Trademark Office covering ED-related applications of NIRS technology.

ED is the inability, over time, to consistently achieve or maintain an erection of sufficient rigidity for sexual intercourse. The causes of ED may be psychogenic in origin or related to penile trauma, spinal cord injuries, abnormalities of the penis, veno-occlusive dysfunction or radical pelvic surgery. ED may also be a secondary symptom of systemic diseases or their treatment, as in patients affected by diabetes mellitus, hypertension, blood lipid abnormalities, coronary artery disease or peripheral vascular disease.

Oral drugs called PDE-5 inhibitors, including Viagra®, Levitra® or Cialis® are the front line treatment for ED. Increasingly, PDE-5 therapy is being initiated by primary care physicians and the patient is referred to a urologist only when the medication appears to be ineffective.

PDE-5 inhibitors are being used by over 38 million men worldwide, and are a first line therapy for most men with ED despite the fact that efficacy ranges from 71 to 76% (vs. 22 to 24% with placebo). Based on this published data, an estimated 5 to 8 million men in the United States alone do not respond to medical treatment with oral PDE-5 inhibitors and require further study to resolve the condition.

Management believes that there is a significant need for improved diagnosis in those men who do not respond to PDE-5 therapy, and that its proprietary NIRS technology will address an unmet medical need for improved ED diagnostics among men that suffer from this condition. This new NIRS application involves an extension of the Company's existing core NIRS technology and a new proprietary disposable sensor configuration.

Initial clinical studies carried out by Dr. Radomski have shown that NIRS can objectively and reproducibly measure blood flow throughout the penis. In addition to the sexual issues related to ED, the measurement of penile blood flow is of increasing interest because ED may be an early warning sign of heart disease. The February 20, 2007 edition of the Wall Street Journal reported that "men who aren't helped by [oral PDE-5 inhibitors] may be at higher risk for heart troubles and a vascular study of the penile arteries might be recommended."

In the fourth quarter of 2007, the Company commenced a new study on 12 male patients undergoing radical prostatectomy surgery to confirm that NIRS can measure differences in blood flow in patients before and after a bilateral nerve-sparing radical prostatectomy procedure. The study was performed by Dr. Radomski and Drs. Sender Herschorn, MDCM, FRCSC, Professor and Chair of the University of Toronto's Division of Urology, and Jack Barkin, MD, FRCS(C), FACS, FICS, DABU, Chief of Urology at Humber River Regional Hospital and Director of The Male Health Centres in Toronto. Study results are expected to be published in the first half of 2008.

Radical prostatectomy is a standard treatment for prostate cancer that often causes intraoperative damage to the neurovascular mechanisms that initiate erections. Earlier detection of prostate cancer through the use of prostate-specific antigen screening has resulted in a significant increase in the number of prostatectomy procedures performed. The incidence of ED among these surgically treated patients is high, and has been attributed to vascular, veno-occlusive or nerve injury causes.

AVID System

In early 2006, the Company discontinued direct sales of products based on its other technology, the Advanced Verification of Integral Dose System (the "AVID System").

During the second quarter of 2006, the Company completed a sub-licensing agreement with Advanced Radiation Devices, Inc. ("ARD") of Japan, for global distribution and marketing of Urodynamix's AVID System. Terms of the agreement include an upfront licensing fee and ongoing royalty payments based on ARD's sales of the AVID System. The licensing fee revenue is being amortized straight-line over the five year life of the agreement. Due to the licensing of the AVID System, the Company is no longer pursuing opportunities for this product line.

The AVID System will be used by medical physicists in the quality assurance and verification of patient treatment plans for Intensity Modulated Radiation Therapy ("IMRT"). IMRT "shapes" the radiation beam in three dimensions so that it conforms precisely to the shape of the diseased tissue and also modulates the beam intensity to deliver a lethal dose to the target tissue, while minimizing damage to surrounding healthy tissues. A product such as the AVID System is required to perform the necessary step of verifying the accuracy and efficacy of the proposed treatments plan prior to delivery to the patients.

Critical Accounting Policies and Estimates

The 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 on favorable terms; however, there can be no assurance that such funds can 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.

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

Financial Instruments

The Company holds various financial instruments including cash and cash equivalents, receivables, payables and accruals, and capital lease obligations. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from the financial instruments. The carrying amounts of these financial instruments approximate their fair value, unless otherwise noted.

The Company earns sublicense revenue and incurs certain expenses in United States dollars, and as such, is exposed to currency risk due to fluctuations in exchange rates. The Company does not undertake significant hedging activities to reduce its exposure to this risk.

Adoption of New Accounting Standards

Effective with the commencement of the 2007 fiscal year, the Company has adopted the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1530 - Comprehensive Income, Handbook Section 3855 - Financial Instruments: Recognition and Measurement, Handbook Section 3861 - Financial Instruments: Disclosure and Presentation, Handbook Section 3865 - Hedges, and Handbook Section 1506 - Accounting Changes

(a) Comprehensive Income, Section 1530

This standard requires the presentation of a statement of comprehensive income and its components. Comprehensive income includes both net earnings and other comprehensive income. Other comprehensive income includes holding gains and losses on available for sale investments, gains and losses on certain derivative financial instruments and foreign currency gains and losses relating to self-sustaining foreign operations, all of which are not included in the calculation of net earnings until realized. The adoption of this section had no impact upon the Company's financial statements.

(b) Financial Instruments: Recognition and Measurement, Section 3855

Under the new standards, all financial instruments are classified into one of the following five categories: Held-for-trading, Held-to-maturity investments, Loans and receivables, Available-for-sale financial assets or Other financial liabilities. All financial instruments, including derivatives, are included on the balance sheet and are measured at fair value with the exception of loans and receivables, investments held-to-maturity and other financial liabilities, which will be measured at amortized cost. Subsequent measurement and recognition of changes in fair value of financial instruments depend on their initial classification.

Held-for-trading financial investments are measured at fair value and all gains and losses are included in net income in the period in which they arise. Available-for-sale financial instruments are measured at fair value with revaluation gains and losses included in other comprehensive income until the asset is removed from the balance sheet.

Upon adoption of the new standards, the Company designated its cash and equivalents as held-for-trading, which are measured at fair value.

The Company has also classified its accounts receivables and other receivables as "Loans and receivables", and its accounts payable and accrued liabilities and capital lease obligations as "Other financial liabilities", all of which are measured at amortized cost.

These new standards have to be applied without restatement of prior period amounts. The adoption of these standards had no impact on net loss.

Financial instruments that potentially subject the Company to a significant concentration of credit risk consist primarily of cash and equivalents. The Company limits its exposure to credit loss by placing its cash and cash equivalents with high credit quality financial institutions.

The carrying amounts of cash and cash, receivables, payables and accruals and capital lease obligations approximate their fair values.

(c) Financial Instruments: Disclosure and Presentation, Section 3861

This standard sets out standards which address the presentation of financial instruments and non-financial derivatives, and identifies the related information that should be disclosed. These standards also revise the requirements for entities to provide accounting policy disclosures, including disclosure of the criteria for designating as held-for-trading those financial assets or liabilities that are not required to be classified as held-for-trading; whether categories of normal purchases and sales of financial assets are accounted for at trade date or settlement date; the accounting policy for transaction costs on financial assets and financial liabilities classified as other than held-for-trading; and provides several new requirements for disclosure about fair value.

The Company has chosen to recognize all transaction costs to the statement of operations on all financial liabilities that have been designated as other than held for trading.

(d) Hedging, Section 3865

This standard specifies the circumstances under which hedge accounting is permissible and how hedge accounting may be performed. The Company currently does not hold any financial instruments designated for hedge accounting.

(e) Accounting Changes, Section 1506

Section 1506 revised the standards on changes in accounting policy, estimates or errors to require a change in accounting policy to be applied retrospectively (unless doing so is impracticable or is specified otherwise by a new accounting standard), changes in estimates to be recorded prospectively, and prior period errors to be corrected retrospectively. Voluntary changes in accounting policy are allowed only when they result in financial statements that provide reliable and more relevant information. In addition, these revised standards call for enhanced disclosures about the effects of changes in accounting policies, estimates and errors on the financial statements. The impact of this new standard cannot be determined until such time as the Company makes a change in accounting policy, other than the changes resulting from the implementation of the new CICA Handbook standards discussed in this note.

(f) Recent pronouncements in Accounting Standards

(i) Handbook Section 1400, General Standards of Financial Statement Presentation, was amended to include the requirements for assessing and disclosing an entity's ability to continue as a going concern from International Financial Reporting Standard IAS 1.

This section is applicable to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008, with earlier adoption encouraged. The Company will adopt this Section in fiscal 2008 but this will not have an impact on the financial statement disclosures as the Company is currently complying with this requirement.

(ii) Handbook Section 1535, Capital Disclosures, requires disclosure about capital and is harmonized with recently amended International Financial Reporting Standard IAS 1. The standard is applicable to all entities, regardless of whether they have financial instruments.

Entities are required to disclose information about its objectives, policies and processes for managing capital, as well as its compliance with any externally imposed capital requirements, where they may exist.

This section is applicable to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007, with earlier adoption encouraged. The Company will adopt this Section in fiscal 2008.

(iii) Handbook Section 3031, Inventories, replaces Handbook Section 3030, Inventories, and provides the Canadian equivalent to International Financial Reporting Standard IAS 2.

This Section provides guidance on the determination of cost, including allocation of overheads and other costs to inventory, allocation of fixed production overhead based on normal capacity levels, with unallocated overhead expensed as incurred. The Section requires the consistent use (by type of inventory with similar nature and use) of either first-in, first-out (FIFO) or weighted average cost formula to measure the cost of other inventories. The use of the last-in, first-out (LIFO) formula to measure the cost of inventories is no

longer acceptable. Under this Section, when the circumstances that previously caused inventories to be written down below cost no longer exist or when there is clear evidence of an increase in net realizable value because of changed economic circumstances, the amount of the write-down is reversed, but the reversal is limited to the amount of the original write-down. This Section also includes expanded disclosure requirements.

This Section applies to interim and annual financial statements for fiscal years beginning on or after January 1, 2008. When applying this Section for the first time, an entity can either apply this Section to the opening inventory for the period and adjusts opening retained earnings by the difference in the measurement of opening inventory (prior periods are not restated) or to retrospectively and restates prior periods in accordance with Handbook Section 1506, Accounting Changes.

(iv) Handbook Section 3064, Goodwill and Intangible Assets, replaces Handbook Section 3062, Goodwill and Other Intangible Assets.

This Section establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. Certain items are specifically excluded from the scope of the Section including the initial recognition, measurement and disclosure of goodwill and intangible assets acquired in a business combination, the establishment of a new cost basis for intangible assets as part of a comprehensive revaluation, intangible assets held by an entity for sale in the ordinary course of business, non-current intangible assets classified as held for sale or included in a disposal group that is classified as held for sale, etc.

Rights under licensing agreements for items such as patents and copyrights are within the scope of this Section. This Section also applies to, among other things, expenditure on advertising, training, start-up and research and development activities. Research and development activities are directed to the development of knowledge. Therefore, although these activities may result in an asset with physical substance, for example, a prototype, the physical element of the asset is secondary to its intangible component, i.e., the knowledge embodied in it.

This Section applies to annual and interim financial statements relating to fiscal years beginning on or after October 1, 2008. Earlier adoption is encouraged. The Company will adopt this Section in fiscal 2009. The impact that this Section will have on the Company's financial position and results of operations is not known.

(v) Handbook Section 3862, Financial Instruments – Disclosures

Section 3862 replaces the disclosure requirements of previous Section 3861 Financial Instruments – Disclosure and Presentation and converges with International Financial Reporting Standard IFRS 7. This Section applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007. The Company will adopt this Section in fiscal 2008.

(vi) Handbook Section 3863, Financial Instruments – Presentation

Section 3863 is consistent with previous Section 3861 which was based on International Financial Reporting Standard IAS 32. This Section applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007. The Company will adopt this Section in fiscal 2008.

(vii) International Financial Reporting Standards

In May 2007, the CICA published an updated version of its "Implementation Plan for Incorporating International Financial Reporting Standards ("IFRS") into Canadian GAAP". This plan includes an outline of the key decisions that the CICA will need to make as it implements the Strategic Plan for publicly accountable enterprises that will converge Canadian generally accepted accounting standards with IFRS. It is anticipated that the decision on the changeover date from current Canadian GAAP to IFRS will be made by March 31, 2008.

Outstanding Share and Warrant Data

The authorized share capital of Urodynamix Technologies Ltd. is unlimited. At March 4, 2008 there were 81,727,893 shares outstanding. There were no common shares reserved for issuance upon the exercise of common share purchase warrants and 6,863,500 common shares reserved for issuance upon the exercise of stock options outstanding under the Stock Option Plan. Also at March 4, 2008, 130,000 performance shares were held in escrow. These 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.

Results of Operations

Annual Financial Information

Year Ended December 31,	2007 \$	2006 \$	2005 \$
Revenue	25,794	12,165	51,802
Net loss	2,622,687	1,897,244	1,225,113
Loss per common share	(0.04)	(0.04)	(0.04)
Total assets	3,242,509	2,237,682	1,088,292
Total long-term financial liabilities	33,206	25,527	30,630
Cash dividends per share	Nil	Nil	Nil

Net Loss

The net loss for the year ended December 31, 2007, was \$2,622,687 or \$0.04 per share as compared with a net loss of \$1,897,244 or \$0.04 per share for the comparative period in 2006.

R&D Expenses

R&D Expenses were \$1,187,016 for the year ended December 31, 2007, compared with \$630,972 for the comparative period in 2006. During 2007, Urodynamix's development projects include applications of NIRS technology in urodynamics, compartment syndrome and erectile dysfunction. Because of the higher number of projects, the Company has incurred increased costs for prototype design and assembly, clinical trials and R&D headcount. For the comparative period in 2006, Urodynamix had one project in development, NIRS Urodynamics, throughout the year. Development of the Company's other applications in compartment syndrome and erectile dysfunction were started late in 2006.

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

	<u>Dec 31</u> <u>2007</u>	<u>Dec 31</u> <u>2006</u>
Wages	\$ 507,054	\$ 427,765
Trials	381,400	221,547
Other	223,711	94,351
Consulting	164,204	49,780
Research Funding	<u>(89,353)</u>	<u>(162,471)</u>
	\$ <u>1,187,016</u>	\$ <u>630,972</u>

General and Corporate Administrative Expenses

General and Administrative Expenses were \$1,231,298 for the year ended December 31, 2007, compared with \$859,770 for the comparative period in 2006. During the 2006 year, the Company incurred consulting fees of \$150,000 for services provided by a company controlled by the CEO. During the 2007 year, the CEO's services were provided under an employment contract. This contractual change caused the fluctuation in the wages and consulting line items. The increase in number of projects under development

have led to higher costs for travel related to business development discussions and clinical site visits and for legal review of various agreements.

Amounts by major sub-category are as follows:

	<u>Dec 31</u> <u>2007</u>	<u>Dec 31</u> <u>2006</u>
Wages	\$ 718,679	\$ 401,871
Other	253,905	160,672
Consulting	42,926	150,000
Rent	78,908	68,810
Professional fees	88,367	48,628
Investor Relations	<u>48,513</u>	<u>29,789</u>
	<u>\$ 1,231,298</u>	<u>\$ 859,770</u>

Marketing Expenses

Marketing costs relate to the Company's non-core AVID technology. Marketing expense was \$5,513 for the year ended December 31, 2006. In early 2006, the Company discontinued direct sales of the product and pursued a sale or licensing of its rights to the AVID technology.

On May 15, 2006, the Company completed a sublicense agreement with a Japanese company ("the Sublicensee"), in respect to further development and marketing of a previously developed technology. Terms of the agreement include an initial licencing fee of US\$120,000 and ongoing royalty payments at a rate of 5% on the Sublicensee's sales derived from the technology.

The Sublicensee failed to make a final payment of US\$40,000 in respect to the initial fee, and the Company considered recovery of the amount to be uncertain. Consequently, an allowance against the receivable was recorded at December 31, 2006.

On April 30, 2007, the Sublicensee made the final payment of US\$40,000 as required under the agreement. Consequently, the allowance against the receivable at December 31, 2006 has been reversed.

As of December 31, 2007, the Sublicensee has not completed any sales from the AVID product line. As such, no royalty is due.

Depreciation and Amortization

Amortization expense relates to the amortization of capital assets and intellectual property owned by the Company. For the year ended December 31, 2007, total amortization expense was \$16,827 compared with \$20,433 for the comparative period in 2006. The decrease in amortization expense is due to the write-off at the end of fiscal 2006 of the remaining carrying cost of the Company's investment in the NIRS technology.

Write-off of Intangible Assets

On May 30, 2005, the Company entered in a license agreement with the University of British Columbia for the exclusive rights to Near Infra Red Spectrophotometry ("NIRS") technology. The costs for upfront license fees and reimbursements to UBC of patent costs were recorded in the financial statements as an intangible asset. The development of the licensed NIRS technology was completed during 2007. Since specific future cash flows to be earned from the technology cannot be accurately predicted, the remaining carrying amount of the intangible asset was written off at December 31, 2006. An impairment loss of \$165,049 was charged to operations for the 2006 year.

Related Parties

During the 2006 year, the Company incurred consulting fees of \$150,000 for services provided by a company controlled by the CEO. During the 2007 year, the CEO's services were provided under an employment contract.

During the 2007 year, the Company incurred consulting fees of \$12,550 (2006: nil) for technical services provided by a director.

During the 2007 year, a total of 887,000 warrants at an exercise price of \$0.20 and 333,000 warrants at an exercise price of \$0.10 were exercised by directors and companies controlled by or related to directors, for total proceeds of \$210,700. During the 2006 year, a total of 1,441,000 warrants at an exercise price of \$0.125 and 333,000 warrants at an exercise price of \$0.10 were exercised by directors and companies controlled by or related to directors, for total proceeds of \$213,425.

During the 2007 year, a total of 183,000 warrants at an exercise price of \$0.20 were exercised by officers for total proceeds of \$36,600. During the 2006 year, a total of 199,000 warrants at an exercise price of \$0.10 and 167,000 warrants at an exercise price of \$0.125 were exercised by officers for total proceeds of \$40,775.

During the 2007 year, a total of 3,333,000 warrants at an exercise price of \$0.20 were exercised by a company having a significant share position in and influence over the Company for total proceeds of \$666,600. During the 2006 year, a total of 6,666,000 warrants at an exercise price of \$0.125 were exercised by a company having a significant share position in and influence over the Company for total proceeds of \$833,250.

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

Quarterly Financial Information

Net Loss

The net loss for the quarter ended December 31, 2007, was \$733,098 or \$0.01 per share as compared with a net loss of \$765,898 or \$0.01 per share for the comparative period in 2006.

R&D Expenses

R&D Expenses were \$280,023 for the quarter ended December 31, 2007, compared with \$177,359 for the comparative period in 2006. During 2007, Urodynamix's various development projects including applications of NIRS technology in urodynamics, compartment syndrome and erectile dysfunction had advanced further through development. As a result, the Company incurred increased costs for prototype design and assembly, consulting and R&D wages.

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

	<u>Dec 31</u> <u>2007</u>	<u>Dec 31</u> <u>2006</u>
Wages	\$ 136,361	\$ 91,886
Trials	42,079	87,983
Other	57,534	35,282
Consulting	44,049	10,819
Research Funding	-	(48,611)
	<u>\$ 280,023</u>	<u>\$ 177,359</u>

General and Corporate Administrative Expenses

General and Administrative Expenses were \$422,203 for the quarter ended December 31, 2007, compared with \$304,458 for the comparative period in 2006. The major causes of the increase in G&A are additional headcount and more travel for business development discussions and clinical site visits.

Amounts by major sub-category are as follows:

	<u>Dec 31</u> <u>2007</u>	<u>Dec 31</u> <u>2006</u>
Wages	\$ 260,633	\$ 200,116
Other	84,026	50,830
Consulting	8,371	15,000
Rent	19,664	17,709
Professional fees	35,184	18,257
Investor Relations	<u>14,325</u>	<u>2,546</u>
	<u>\$ 422,203</u>	<u>\$ 304,458</u>

Depreciation and Amortization

Amortization expense relates to the amortization of capital assets and intellectual property owned by the Company. For the quarter ended December 31, 2007, total amortization expense was \$4,847 compared with \$5,336 for the comparative period in 2006.

Write-off of Intangible Assets

On May 30, 2005, the Company entered in a license agreement with the University of British Columbia for the exclusive rights to Near Infra Red Spectrophotometry ("NIRS") technology. The costs for upfront license fees and reimbursements to UBC of patent costs were recorded in the financial statements as an intangible asset. The development of the licensed NIRS technology was completed during 2007. Since specific future cash flows to be earned from the technology cannot be accurately predicted, the remaining carrying amount of the intangible asset was written off at December 31, 2006. An impairment loss of \$165,049 was charged to operations for the 2006 year.

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 on favorable terms. However, there can be no assurance that such funds can be available on favorable terms, if at all.

As at December 31, 2007, the Company had cash and cash equivalents of \$3,056,277 and working capital of \$2,705,938. This compares with cash and cash equivalents of \$2,063,784 and a working capital position of \$1,947,928 at December 31, 2006.

Cash used in operating activities was \$2,003,791 for the year ended December 31, 2007 compared with \$1,339,897 for the comparative period in 2006. The increase in cash used in operations is due to the addition of development projects for NIRS-Compartment Syndrome and NIRS-Erectile Dysfunction. Because of the higher number of projects, the Company has incurred increased costs for prototype design and assembly, clinical trials and R&D headcount. The Company has also increased travel and G&A headcount to support distribution and business development activities.

Cash used for investing activities was \$15,525 for the year ended December 31, 2007 compared with \$42,039 for the comparative period in 2006.

Cash provided by the issuance of new shares during the year ended December 31, 2007 was \$3,030,695 as compared to \$2,574,945 in 2006. New share issuances in 2007 represents proceeds primarily from the

exercise of warrants priced at \$0.10 or \$0.20 per warrant that would have otherwise expired during the third quarter of 2007.

Cash used in operating activities was \$552,097 for the quarter ended December 31, 2007 compared with \$362,768 for the comparative period in 2006. The increase in cash used in operations is due to the addition of development projects for NIRS-Compartment Syndrome and NIRS-Erectile Dysfunction. Because of the higher number of projects, the Company has incurred increased costs for prototype design and assembly, clinical trials and R&D headcount. The Company has also increased travel and G&A headcount to support distribution and business development activities.

Cash used for investing activities was \$5,690 for the quarter ended December 31, 2007 compared with cash provided of \$7,251 for the comparative period in 2006.

Cash provided by the issuance of new shares during the quarter ended December 31, 2007 was \$nil as compared to \$36,013 for the comparative period in 2006. New share issuances in 2006 represents proceeds from the exercise of warrants.

Management believes that cash flows from operations and funds on hand may 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 on favorable terms. However, there can be no assurance that such funds can be available on favorable terms, if at all.

Commitments

Premises and Office Equipment

The Company leases its premises with minimum future rent payable including estimated annual operating costs as follows:

2008	\$	84,938
2009		81,342
2010		<u>70,781</u>
	\$	<u>237,061</u>

The Company agreed on May 10, 2007 to issue 150,000 common shares of the Company to a co-inventor for the assignment of all rights, title and interest to the invention forming part of a provisional Erectile Dysfunction patent application. The asset acquisition is conditional on the Company's ability to obtain sufficient data in order to carry out a formal patent application by March 31, 2008.

The Company agreed on September 28, 2007 to issue 150,000 common shares of the Company to a director of the Company for the assignment of all rights, title and interest to the invention forming part of a provisional Prostate Imaging patent application. The asset acquisition is conditional on the Company's ability to obtain sufficient data in order to carry out a formal patent application by May 1, 2008.

On May 17, 2007, the Company signed a binding seven-year Term Sheet for Distribution with Laborie Medical Corp. ("Laborie"). The Company completed the definitive Distribution Agreement on October 22, 2007. The agreement is to grant Laborie non-exclusive sales, marketing and distribution rights for the Company's URO-NIRS Bladder Monitor in North America and Europe, and exclusive sales, marketing and distribution rights in South America, the Middle East and Asia. Pursuant to the Term Sheet, Laborie has paid an upfront licensing fee of US\$50,000, is to pay certain milestone payments of US\$100,000, guarantee minimum sales quantities, and provide limited funding of up to US\$300,000 each for four individual clinical trials to be carried out by the Company as part of the two companies' effort to develop a marketable product. A 50% portion of the upfront licensing fee is refundable if certain regulatory approvals are not obtained prior to March 31, 2008.

Disclosure Controls and Procedures

The Company's CEO and CFO reviewed and evaluated the Company's disclosure controls and procedures. Based on that evaluation, they have concluded that the Company's disclosure controls and procedures are effective in providing them with timely material information relating to the Company.

Internal Control over Financial Reporting

The CEO and CFO are responsible for the design of internal controls over financial reporting in order to provide reasonable assurance that the Company's financial reporting is reliable and that financial statements prepared for external purposes are prepared in accordance with Canadian GAAP.

The CEO and CFO do not expect that the Company's internal controls and procedures over financial reporting will prevent all error and fraud. A control system can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within Urodynamix have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in the achieving our stated goals under all potential future conditions. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The CEO and CFO are aware that internal controls relating to the accounting function could be strengthened by adhering to a strict policy of segregating the duties of accounting staff to reduce the risk of unauthorized journal entries being made. At the Company's current size, adoption of such a policy is impractical. To reduce this risk, the CEO and Audit Committee periodically review recorded financial information. The CEO and CFO believe that this review represents an adequate compensating control and accordingly, there are no plans to remediate this internal control weakness.

Management has evaluated the design of the Company's internal controls and procedures over financial reporting as of the end of the period, and believes the design to be sufficient to provide reasonable assurance that the Company's financial reporting is reliable and that financial statements prepared for external purposes are prepared in accordance with Canadian GAAP.

There were no changes in the Company's internal controls over financial reporting that occurred during the fourth quarter of 2007 that have materially affected, or are reasonably likely to materially affect, its internal controls over reporting.

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.

Summary of Quarterly Results

The following table sets out selected quarterly information for the year ended December 31, 2007 and the previous eight quarters of 2006 and 2005:

Quarter Ended 2007	March 31 \$	June 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)
Quarter Ended 2006	March 31 \$	June 30 \$	September 30 \$	December 31 \$
Revenue	432	4,628	6,726	379
Loss	366,957	383,771	380,618	765,898
Loss per common share	(0.01)	(0.01)	(0.01)	(0.01)
Quarter Ended 2005	March 31 \$	June 30 \$	September 30 \$	December 31 \$
Revenue	Nil	51,181	189	432
Loss	317,629	215,891	244,523	447,070
Loss per common share	(0.02)	(0.01)	(0.01)	(0.01)

CORPORATE DATA

DECEMBER 31, 2007

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DIRECTORS AND OFFICERS

Barry J. Allen	Chairman & Chief Executive Officer
Kevin Leong	Chief Financial Officer
Dr. Luya Li	Vice-President, Technology
Paul Geyer	Director
Dr. David Goodkin	Director
James Heppell	Director
Pierre Leduc	Director
Dr. Zeid Mohamedali	Director
Tanner Philp	Corporate Secretary

CAPITALIZATION

Authorized:	Unlimited
Issued:	81,727,893
Escrow:	130,000
Options:	6,718,500
Warrants:	Nil

SOLICITOR

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2100-1075 West Georgia Street
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Canada

AUDITORS

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LISTING

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Trading Symbol: URO.V
CUSIP #: 91727
