

Financial statements of

**Urodynamix Technologies Ltd.**

December 31, 2008 and 2007

# Urodynamix Technologies Ltd.

December 31, 2008 and 2007

## Table of contents

Auditors' report .....	1
Statement of operations and comprehensive loss .....	2
Statement of shareholders' equity .....	3
Balance sheet .....	4
Statement of cash flows .....	5
Notes to the financial statements .....	6-21
Schedule of general and administrative expenses, selling & marketing and research and development expenses .....	22

Deloitte & Touche LLP  
2800 - 1055 Dunsmuir Street  
4 Bentall Centre  
P.O. Box 49279  
Vancouver BC V7X 1P4  
Canada

Tel: 604-669-4466  
Fax: 604-685-0395  
www.deloitte.ca

## **Auditors' report**

To the Shareholders of  
Urodynamix Technologies Ltd.

We have audited the balance sheets of Urodynamix Technologies Ltd. as at December 31, 2008 and 2007 the statements of operations and comprehensive loss, shareholders' equity and cash flows for the years 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 audits.

We conducted our audits 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, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

**(Signed) Deloitte and Touche LLP**

Chartered Accountants  
April 15, 2009

# Urodynamix Technologies Ltd.

## Statement of operations and comprehensive loss years ended December 31, 2008 and 2007

	2008	2007
	\$	\$
<b>Revenue</b>	<b>188,893</b>	<b>25,794</b>
Cost of goods sold	85,060	-
Gross profit	103,833	25,794
Expenses		
General and administrative (Schedule)	1,479,343	1,231,298
Sales and marketing (Schedule)	142,202	-
Research and development (Schedule)	1,465,589	1,187,016
Stock-based compensation (Note 10 (c))	298,556	304,546
Amortization of intangible assets	3,808	-
Amortization of property and equipment	39,913	16,827
	3,429,411	2,739,687
Loss from operations	(3,325,578)	(2,713,893)
Other income (expenses)		
Write of of intangible assets (Note7)	(103,692)	
Loss on disposal of property and equipment	(16,713)	-
Lease termination penalty	(15,122)	-
Write off of deferred tenant inducements	(10,016)	-
Interest expense	(4,746)	(6,216)
Interest income	47,835	97,422
	(102,454)	91,206
<b>Net loss and comprehensive loss for the year</b>	<b>(3,428,032)</b>	<b>(2,622,687)</b>
Basic and diluted loss per share	(0.04)	(0.04)
Weighted average number of basic and diluted common shares outstanding	85,752,265	73,162,415

# Urodynamix Technologies Ltd.

Statement of shareholders' equity  
years ended December 31, 2008 and 2007

	Common shares		Warrants		Contributed surplus	Total capital and contributed surplus	Deficit	Total shareholders' equity
	Issuable, Issued and outstanding	Issued and outstanding	Issued and outstanding	Issued and outstanding				
	Number	Amount	Number	Amount				
		\$		\$	\$	\$	\$	\$
<b>Balance, December 31, 2006</b>	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	-	-	-
<b>Balance, December 31, 2007</b>	81,727,893	14,844,503	-	-	2,071,463	16,915,966	(14,283,566)	2,632,400
Net loss	-	-	-	-	-	-	(3,428,032)	(3,428,032)
Stock-based compensation	-	-	-	-	298,556	298,556	-	298,556
Shares issued for cash pursuant to private placement, net of costs	25,000,000	2,466,260	-	-	-	2,466,260	-	2,466,260
Shares issued (Note 10 (a))	500,000	107,500	-	-	-	107,500	-	107,500
<b>Balance, December 31, 2008</b>	107,227,893	17,418,263	-	-	2,370,019	19,788,282	(17,711,598)	2,076,684

# Urodynamix Technologies Ltd.

## Balance sheet

as at December 31, 2008 and 2007

	2008	2007
	\$	\$
<b>Assets</b>		
Current assets		
Cash and cash equivalents (Note 5(b))	1,762,794	3,056,277
Restricted cash (Note 5 (c))	500,000	
Accounts receivable	108,116	68,069
Inventory	78,772	-
Prepays	84,107	50,124
	<u>2,533,789</u>	<u>3,174,470</u>
Property and equipment (Note 6)	173,946	68,039
	<u>2,707,735</u>	<u>3,242,509</u>
<b>Liabilities</b>		
Current liabilities		
Accounts payable and accruals	454,867	418,408
Deferred revenue (Note 9)	159,884	145,339
Current portion of capital lease obligations (Note 8)	12,277	13,156
	<u>627,028</u>	<u>576,903</u>
Deferred tenant inducements received	-	14,202
Capital lease obligations	4,023	19,004
	<u>631,051</u>	<u>610,109</u>
<b>Shareholders' equity</b>		
Capital stock	17,418,263	14,844,503
Contributed surplus	2,370,019	2,071,463
Deficit	(17,711,598)	(14,283,566)
	<u>2,076,684</u>	<u>2,632,400</u>
	<u>2,707,735</u>	<u>3,242,509</u>

Continuing operations (Note 1)

Commitments (Note 13)

Contingency (Note 16)

Approved by the Directors

(Signed) Paul Geyer

Paul Geyer, Director

(Signed) James Heppell

James Heppell, Director

# Urodynamix Technologies Ltd.

## Statement of cash flows

years ended December 31, 2008 and 2007

	2008	2007
	\$	\$
<b>Operating activities</b>		
Net loss	(3,428,032)	(2,622,687)
Items not involving cash		
Write off of intangible assets	103,692	-
Amortization of property and equipment	39,913	16,827
Amortization of intangibles	3,808	-
Loss on disposal of property and equipment	16,713	-
Amortization of deferred revenue	(34,945)	(25,793)
Write off of deferred tenant inducements	(10,016)	-
Amortization of tenant inducement	(4,186)	-
Stock-based compensation	298,556	304,546
	(3,014,497)	(2,327,107)
Change in non-cash working capital		
Accounts receivable	(40,047)	23,073
Inventory	(78,772)	-
Prepays	(33,983)	(9,222)
Accounts payable and accruals	36,459	211,410
Deferred revenue	49,490	98,055
Cash used in operating activities	(3,081,350)	(2,003,791)
<b>Investing activities</b>		
Restricted cash pursuant to private placement (Note 10 (a))	(500,000)	-
Proceeds on disposal of property and equipment	4,000	-
Property and equipment	(166,533)	(15,525)
Cash used in investing activities	(662,533)	(15,525)
<b>Financing activities</b>		
Shares issued for cash pursuant to private placement, net of financing fees (Note 10 (a))	2,466,260	-
Shares issued for cash pursuant to exercise of warrants, net of financing fees (Note 10 (d))	-	3,030,695
Repayment of capital lease obligations	(15,860)	(18,886)
Cash provided by financing activities	2,450,400	3,011,809
Net increase (decrease) in cash and cash equivalents	(1,293,483)	992,493
Cash and cash equivalents, beginning of year	3,056,277	2,063,784
<b>Cash and cash equivalents, end of year</b>	<b>1,762,794</b>	<b>3,056,277</b>
Cash and cash equivalents are comprised of		
Cash	87,794	106,277
Cash equivalents	1,675,000	2,950,000
	1,762,794	3,056,277
<b>Supplemental cash flow information:</b>		
Interest paid	4,746	6,216
Taxes paid	-	-
<b>Non-cash investing and financing items not included in cash flows</b>		
Shares issued to UBC (Note 7)	107,500	-

# Urodynamix Technologies Ltd.

## Notes to the financial statements

December 31, 2008 and 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 currently developing a portfolio of medical devices to aid in the diagnosis and treatment of urinary incontinence (UI), lower urinary tract symptoms (LUTS), benign prostatic hyperplasia (enlarged prostate or BPH), prostate cancer and traumatic increases in intra-abdominal pressure that cause abdominal compartment syndrome.

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

The Company has a history of operating losses and negative cash flows from operations in every period since inception as it is currently developing technology on a long-term basis with uncertain prospects, and has no significant source of revenue. For the year ended December 31, 2008, the Company incurred an operating loss of \$3,428,032 (2007 - \$2,622,687) and negative cash flow from operations of \$3,081,350 (2007 - \$2,003,791). As of December 31, 2008 the Company had an accumulated deficit of \$17,711,598.

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 to generate continued financial support in the form of share issuances. The Company plans to issue additional securities to fund the continued development of the technology; however, there can be no assurance that funds will be available on 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. Changes in accounting policies

The Company has adopted the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1400, *General Standards of Financial Statement Presentation*, Handbook Section 1535, *Capital Disclosures*, Handbook Section 3031, *Inventories*, Handbook Section 3862, *Financial Instruments – Disclosures*, and Handbook Section 3863, *Financial Instruments – Presentation*.

#### (a) *Handbook Section 1400, General Standards of Financial Statement Presentation*

In June 2007, the CICA amended Section 1400, "General Standards of Financial Statement Presentation" to change the guidance related to management's responsibility to assess the ability of the entity to continue as a going concern. Management is required to make an assessment of an entity's ability to continue as a going concern and should take into account all available information about the future, which is at least but not limited to 12 months from the balance sheet date. Disclosure is required of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern. The amendments to Section 1400 apply to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008. The adoption of this standard had no impact on the Company's presentation of its financial position or results of operations as at December 31, 2008 and for the year then ended.

#### (b) *Handbook Section 1535, Capital Disclosures*

Section 1535 requires the disclosure of both qualitative and quantitative information that enables users of financial statements to evaluate (i) an entity's objectives, policies and processes for managing capital; (ii) quantitative data about what the entity

# Urodynamix Technologies Ltd.

## Notes to the financial statements

December 31, 2008 and 2007

### 2. Changes in accounting policies (continued)

regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such non-compliance. For new disclosures refer to note 4. The adoption of Section 1535 did not have an impact on the Company's financial results or position.

(c) *Handbook Section 3031, Inventories*

Under the new section, inventories are required to be measured at the "lower of cost and net realizable value", which is different from the previous guidance of the "lower of cost and market". Costs such as storage costs and administrative overhead that do not contribute to bringing inventories to their present location and condition are specifically excluded from the cost of inventories and expensed in the period. The new standard also requires additional disclosures including the accounting policies used in measuring inventories, the carrying amount of the inventories, amounts recognized as an expense during the period, write-downs and the amount of any reversal of any write-downs recognized as a reduction in expenses.

(d) *Handbook Section 3862 and 3863, Financial Instruments – Disclosure and Presentation*

Sections 3862 and 3863 replace Handbook Section 3861, Financial Instruments – Disclosure and Presentation, revising and enhancing its disclosure requirements and carrying forward unchanged its presentation requirements for financial instruments. Sections 3862 and 3863 place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks.

The adoption of these standards did not have an impact on the classification and valuation of financial instruments. The new disclosures resulting from adoption of these standards are included in note 5.

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

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

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

(f) *Business Combinations*

In January 2009, the CICA issued Section 1582, Business Combinations, Section 1601, Consolidations, and Section 1602, Non-controlling Interests. These new standards are harmonized with International Financial Reporting Standards (IFRS). Section 1582 specifies a number of changes, including: an expanded definition of a business, a requirement to measure all business acquisitions at fair value, a requirement to measure non-controlling interests at fair value, and a requirement to recognize acquisition-related costs as expenses. Section 1601 establishes the standards for preparing consolidated financial statements. Section 1602 specifies that non-controlling interests be treated as a separate component of equity, not as a liability or other item outside of equity. The new standards will become effective in 2011 but early adoption is permitted. The Company is evaluating the attributes of early

# Urodynamix Technologies Ltd.

## Notes to the financial statements

December 31, 2008 and 2007

### 2. Changes in accounting policies (continued)

adoption of this standard and its potential effects if events or transactions occurred that this standard applies to.

*g) International Financial Reporting Standards*

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

### 3. Summary of significant accounting policies

*(a) Basis of presentation*

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

*(b) Measurement uncertainty*

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. Estimates are used for, but not limited to allowance for doubtful accounts, useful lives and recoverability of long lived assets, stock compensation, contingencies and the determination of the Company's ability to continue as a going concern. Actual results could differ from management's estimates.

*(c) Cash and cash equivalents*

Cash and cash equivalents include cash on hand, demand deposits and short-term, highly liquid investments that are readily convertible to known amounts of cash within 90 days of deposit without penalty, and intended for short-term use in operations.

*(d) Inventory*

The Company values inventories at the lower of cost and net realizable value. Costs include the cost of purchase net of vendor allowances and other costs such as duty and taxes but exclude the cost of transportation that are directly incurred to bring inventories to their present location and condition. Inventories are written down to net realizable value when the cost of inventories is not estimated to be recoverable due to obsolescence, damage or declining selling prices. When circumstances that previously caused inventories to be written down below cost no longer exist or when there is clear evidence of an increase in selling price, the amount of the write-down previously recorded is reversed. Storage costs, indirect administrative overhead and certain selling costs related to inventories are expensed in the period these costs are incurred.

*(e) 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:

# Urodynamix Technologies Ltd.

## Notes to the financial statements

December 31, 2008 and 2007

### 3. Summary of significant accounting policies (continued)

Office furniture and equipment	20%
Computer and laboratory equipment	30%
Manufacturing equipment	30%

(f) *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.

(g) *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.

(h) *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. As of December 31, 2008 all development costs have been expensed.

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.

(i) *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.

(j) *Stock options*

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

# Urodynamix Technologies Ltd.

## Notes to the financial statements

December 31, 2008 and 2007

### 3. Summary of significant accounting policies (continued)

Compensation cost to non-employees is recognized at fair value at the date of grant and is expensed on a systematic basis over the vesting period, on a straight-line basis, subject to subsequent measurement adjustments.

(k) *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.

(l) *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.

(m) *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 tax assets are not recorded when it is considered not likely that the future benefit will be realized, in which case a valuation allowance is provided.

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

(o) *Revenue recognition*

The Company recognizes revenue from the sale of products when persuasive evidence of an arrangement exists, the product has been delivered, collection of the resulting receivable is considered reasonably assured and the fee is fixed and determinable.

# Urodynamix Technologies Ltd.

## Notes to the financial statements

December 31, 2008 and 2007

### 3. Summary of significant accounting policies (continued)

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.

(p) *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.

(q) *Share and warrant units*

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

### 4. Managing Capital

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

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

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

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

# Urodynamix Technologies Ltd.

## Notes to the financial statements

December 31, 2008 and 2007

### 5. Financial Instruments

#### (a) Financial Instruments

The Company has classified financial instruments as follows:

<i>Financial Assets and Liabilities</i>	December 31, 2008	December 31, 2007
<b>Financial Assets</b>		
Held for trading, measured at fair value		
Cash and cash equivalents	\$ 1,762,794	\$ 3,056,277
Restricted cash	500,000	
Loans and receivables, measured at amortized cost	108,116	68,069
<b>Financial Liabilities</b>		
Other liabilities, measured at amortized cost		
Accounts payable and accrued liabilities	\$ 454,867	\$ 418,408
Capital lease obligations	16,300	19,004

Due to the short term nature of loans and receivables, accounts payable and accrued liabilities their fair value approximates amortized cost. The Company had no held-to-maturity or available-for-sale financial instruments at December 31, 2008 or at December 31, 2007.

#### (b) Cash equivalents

At December 31, 2008, the Company held \$1,675,000 in guaranteed investment certificates (GIC) returning a variable rate of interest. The weighted average interest rate on the GIC's is 2.90% per annum (2007: 4.09% per annum). The GIC's have a maturity date of one year and are cashable at any time for face value plus accrued interest.

#### (c) Restricted cash

Under the terms of the \$2,500,000 financing completed November 5, 2008, \$500,000 of the subscription proceeds were deposited in escrow, to be held by a third party, until the approval by the Company's shareholders of BC Advantage Funds being a control person. In order for the funds to be released to the Company, the TSX Venture Exchange requires that shareholders of the Corporation approve BC Advantage Funds becoming a control person of the Corporation. The Company has covenanted to submit the matter to shareholders for approval at its next AGM. The restricted cash balance at December 31, 2008 was \$500,000.

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

#### *Credit risk*

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

# Urodynamix Technologies Ltd.

## Notes to the financial statements

December 31, 2008 and 2007

### 5. Financial Instruments (continued)

The Company provides credit to its customers in the normal course of operations. The Company's credit risk review includes performing credit evaluations of the financial condition of its significant customers. For the year ended December 31, 2008, the Company sold its products through one distributor and as a result 100% of its trade receivable balance, at year-end, was comprised of amounts due from Laborie Medical Technologies Inc. The Company has also entered into a distribution agreements with Medical Measurements Systems B.V.

#### *Interest rate risk*

The Company's cash investments fluctuate with the movement of the Canadian prime interest rate, a 1% increase in the interest rate earned on the Company's cash and cash equivalents would have increased interest revenue by \$26,595 for the year ended December 31, 2008.

#### *Foreign currency risk*

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

#### *Liquidity risk*

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

### 6. Property and equipment

	2008		
	Cost	Accumulated amortization	Net book value
	\$	\$	\$
Office furniture and equipment	62,019	29,377	32,642
Computer and laboratory equipment	184,074	116,121	67,953
Manufacturing equipment	92,544	19,193	73,351
	<u>338,637</u>	<u>164,691</u>	<u>173,946</u>

# Urodynamix Technologies Ltd.

Notes to the financial statements

December 31, 2008 and 2007

## 6. Property and equipment (continued)

	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
Manufacturing Equipment	-	-	-
	<u>199,276</u>	<u>131,237</u>	<u>68,039</u>

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

	2008		
	Cost	Accumulated amortization	Net book value
	\$	\$	\$
Office furniture and equipment	5,500	4,653	847
Computer and laboratory equipment	58,554	49,611	8,943
	<u>64,054</u>	<u>54,264</u>	<u>9,790</u>

	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
	<u>91,541</u>	<u>52,816</u>	<u>38,725</u>

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.

## 7. Intangible assets

	2008			
	Cost	Accumulated amortization	Write-off	Net book value
	\$	\$	\$	\$
NIRS Technology (a)(b)	107,500	3,808	103,692	-
AVID System (c)	-	-	-	-
	<u>107,500</u>	<u>3,808</u>	<u>103,692</u>	<u>-</u>

# Urodynamix Technologies Ltd.

## Notes to the financial statements

December 31, 2008 and 2007

### 7. Intangible assets (continued)

- (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 and \$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. During the 2008 year, the Company reimbursed UBC for patent costs incurred of \$15,192 (2007 - \$Nil). Patent costs are expensed as incurred.

- (b) On March 5, 2008, one of the Company's distribution partners, Laborie Medical Technologies Inc ("Laborie"), obtained 510(k) clearance from the U.S. Food and Drug Administration ("FDA") to market their urodynamics equipment with the Tetra™ Bladder Monitor System for non-invasive bladder testing. On August 12, 2008, Laborie, received approval to CE mark the Tetra device. Under the terms of its license agreement with the University of British Columbia ("UBC"), the receipt of FDA clearance and the issuance of the CE mark required milestone payments of 250,000 common shares of the Company to UBC on each milestone date. The fair market value of the Company's shares on March 5, 2008 and September 20, 2008 was \$0.235 and \$0.195, per share, respectively, or \$107,500 in total, which was recorded in intangible assets on the dates the shares were issued. The Company recorded amortization of \$3,808 during the year but determined at year end that the net realizable value was not determinable and that as a result the carrying value of the intangible asset has been written down to \$nil.
- (c) 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. The carrying value of the license agreement is \$0 (2007 - \$0). The Company has sublicensed the technology as described in Note 9.

# Urodynamix Technologies Ltd.

## Notes to the financial statements

December 31, 2008 and 2007

### 8. Capital lease obligations

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

	\$
2009	14,005
2010	3,358
2011	1,067
	<u>18,430</u>
Less: Interest at average rate of 19%	<u>(2,130)</u>
	16,300
Less: Current portion	<u>(12,277)</u>
	<u>4,023</u>

### 9. 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 7 (b)). Terms of the agreement included a 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 initial license fee received of \$125,937 (US\$120,000), net of related expenses of \$10,337, is being recognized as revenue on a straight-line basis over the five year term of the agreement, assuming the agreement is maintained. Revenue of \$20,989 (2007 - \$24,535) was recognized for the year. Royalties of \$Nil (2007 - \$Nil) was recognized for the year.

### 10. Capital stock

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

	2008	2007
Opening	81,727,893	65,186,487
Warrants exercised	-	16,116,406
Stock options exercised	-	425,000
Stock issued to UBC pursuant to milestones	500,000	
Shares issued pursuant to private placement	25,000,000	-
Ending	<u>107,227,893</u>	<u>81,727,893</u>

Under the terms of the Company's license agreement with the University of British Columbia ("UBC"), the receipt of FDA clearance and the issuance of the CE mark to its partner Laborie Medical Technologies Inc. required milestone payments of 500,000 common shares of the Company to UBC. See Note 14 (ii).

On October 15, 2008, the Company entered into an agreement with BC Advantage Funds (Advantage) wherein Advantage agreed, subject to normal closing conditions, to purchase 25,000,000 shares of the Company at a price of \$0.10 per share for total proceeds of \$2,500,000. The agreement with Advantage closed and funds were received on November 5, 2008. No commission was payable on the funds received from Advantage.

# Urodynamix Technologies Ltd.

## Notes to the financial statements

December 31, 2008 and 2007

### 10. Capital stock (continued)

(b) *Shares held in escrow*

At December 31, 2008, 130,000 (2007 - 130,000) performance based shares were held in escrow. These shares may be released from escrow based on achievement of certain cumulative cash flow criteria. These shares are subject to cancellation on December 1, 2010 if not released from escrow before that date.

(c) *Stock options*

The Company adopted a rolling stock option plan (the "Plan"), approved by the Company's stockholders on 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	Amount	price per share
		\$	\$
Outstanding, December 31, 2006	5,834,000	371,435	0.15
Granted	1,359,500	304,546	0.20
Exercised	(425,000)	(42,796)	0.12
Cancelled	(50,000)	(2,647)	0.15
Outstanding, December 31, 2007	6,718,500	630,538	0.16
Granted	1,606,000	315,190	0.20
Cancelled	(699,000)	(115,000)	0.16
Outstanding, December 31, 2008	7,625,500	830,728	0.17

The following tables summarize stock options outstanding and exercisable at December 31, 2008:

Number outstanding	Average remaining contractual life (in years)	Weighted average exercise price per share
		\$
1,735,000	1.8 - 4.9	0.10 - 0.13
3,475,000	2.0 - 3.1	0.15
855,000	4.0 - 4.7	0.19 - 0.21
1,140,500	3.4 - 4.2	0.23 - 0.24
420,000	0.2 - 3.8	0.28 - 0.30
7,625,500	2.9	0.17

# Urodynamix Technologies Ltd.

## Notes to the financial statements

December 31, 2008 and 2007

### 10. Capital stock (continued)

Number exercisable	Average remaining contractual life (in years)	Weighted average exercise price per share \$
6,619,750	2.6	0.17

During the year ended December 31, 2008, the Company recorded \$298,556 (2007 - \$304,546) 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:

	2008	2007
Risk free interest rate	3.10%	4.13%
Dividend yield	Nil	Nil
Expected volatility	107%	110%
Expected life of option	5 years	5 years

The weighted average fair value of options granted during the 2008 year was \$0.15 (2007 - \$0.17).

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, and therefore the available models do not necessarily provide a reliable single measure of the fair value of the Company's stock options.

#### (d) Warrants

A summary of share warrant activity follows:

	2008	2007
	\$	\$
Opening	-	16,953,905
Issued	-	-
Exercised	-	(16,116,406)
Expired	-	(837,499)
Ending	-	-

There are no warrants outstanding and exercisable at December 31, 2008.

# Urodynamix Technologies Ltd.

## Notes to the financial statements

December 31, 2008 and 2007

### 10. Capital stock (continued)

(e) *Contributed surplus*

	2008	2007
	\$	\$
Opening	2,071,463	1,783,914
Stock compensation expense	298,556	304,546
Options exercised	-	(42,796)
Expiration of warrants	-	25,799
Ending	2,370,019	2,071,463

### 11. 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:

	2008	2007
	\$	\$
Loss before income taxes	(3,428,032)	(2,622,687)
Expected tax recovery at combined federal and provincial rates of 31.5% (2007 - 34.1%)	(877,520)	(894,336)
Stock-based compensation	63,856	103,850
Write off of intangible asset	26,960	
Other	171,676	51,486
Benefit of unrecognized tax asset	615,028	739,000
Income tax provision	-	-

Future income tax assets consist of the following temporary differences:

	2008	2007
	\$	\$
Losses carried forward	2,464,000	2,267,500
Intangible assets	285,000	282,500
Property and equipment	43,000	39,000
Financing fees	52,000	44,600
Other	42,000	43,100
Valuation allowance	(2,886,000)	(2,676,700)
	-	-

The Company has operating losses totaling approximately \$9,480,000 available to offset future taxable income. These operating losses expire if unutilized as follows:

# Urodynamix Technologies Ltd.

## Notes to the financial statements

December 31, 2008 and 2007

### 11. Income taxes (continued)

	\$
2009	315,000
2010	931,000
2011	1,945,000
2015	1,080,000
2026	1,007,000
2027	1,368,000
2028	2,834,000
	<u>9,480,000</u>

### 12. Related party transactions

During the 2008 year, the Company incurred consulting fees of \$61,560 (2007: \$12,550) for technical services provided by two directors. These transactions were recorded at the exchange amount, which is the amount established and agreed to between the related parties.

### 13. Commitments

- (a) The Company is committed to payments with respect to an agreement to lease its office premises, which include estimated annual operating costs and payments with respect to leased assets. Future required minimum payments are as follows:

	\$
2009	216,923
2010	210,103
2011	155,905
	<u>582,931</u>

- (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 Company did not obtain sufficient data in order to carry out a formal patent application by March 31, 2008 as agreed. If a formal patent application is not completed the Company retains the right to terminate the Agreement and not issue the shares.
- (c) The Company agreed on September 28, 2007 to issue 150,000 common shares of the Company to a director of the Company (Dr. Zeid Mohamedali) for the assignment of all rights, title and interest to the invention forming part of a provisional Prostate Imaging patent application. The Company did not obtain sufficient data in order to carry out a formal patent application by May 1, 2008 as agreed. If a formal patent application is not completed the Company retains the right to terminate the Agreement and not issue the shares.

# Urodynamix Technologies Ltd.

## Notes to the financial statements

December 31, 2008 and 2007

### 14. Supplementary cash flow information

Significant non-cash transactions occurring during the 2008 and 2007 years were as follows:

- (i) During the 2008 year, the Company issued options to directors, officers, consultants and employees to acquire 1,606,000 common shares of the Company as described in Note 10(c). The estimated fair value of these options, totalling \$315,190, is to be recognized over the vesting period. An amount of \$119,130 was charged to operations for the 2008 year.
- (ii) On March 5, 2008, one of the Company's distribution partners, Laborie, obtained 510(k) clearance from the U.S. Food and Drug Administration ("FDA") to market their urodynamics equipment with the Tetra™ Bladder Monitor System for non-invasive bladder testing. On August 12, 2008, Laborie, received approval to CE mark the Tetra device. Under the terms of its license agreement with the University of British Columbia ("UBC"), the receipt of FDA clearance and the issuance of the CE mark required milestone payments of 250,000 common shares of the Company to UBC on each milestone date. The fair market value of the Company's shares on March 5, 2008 and September 20, 2008 was \$0.235 and \$0.195 per share, respectively, or \$107,500 in total, and the exchange was recorded in intangible assets on the dates the shares were issued. The Company recorded amortization of \$3,808. At year end, the Company wrote off the carrying value of the intangible asset and recorded an expense of \$103,692.
- (iii) During the 2008 year, the Company acquired property and equipment at a cost of \$3,424 for which it assumed obligations under capital leases.
- (iv) 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, in total \$39,325, was fully charged to operations for the 2007 year.

### 15. Subsequent events

On January 5, 2009, the Company announced that it had obtained 510(k) clearance from the U.S. Food and Drug Administration to market the UroNIRS 2000™ Bladder Monitor System in the United States.

On February 26, 2009, the Company announced that it had been granted a CE Mark from the European Commission to market the UroNIRS 2000™ Bladder Monitor System in European Economic Union.

### 16. Contingency

Included in the results for the year ended December 31, 2009 is a \$170,000 provision for incentive payments that have been earned but for which payment will only be made when the payment has been approved by the board of directors of the Company.

### 17. Comparative figures

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

# Urodynamix Technologies Ltd.

Schedule of selling, general and administrative expenses and research and development expenses, years ended December 31, 2008 and 2007

	2008	2007
	\$	\$
<b>General and administrative expenses</b>		
Wages	815,524	718,679
Other	214,027	181,618
Travel	139,680	72,287
Professional fees	98,406	88,367
Rent	135,151	78,908
Investor relations	38,405	48,513
Consulting	38,150	42,926
	<u>1,479,343</u>	<u>1,231,298</u>
<b>Selling and marketing expenses</b>		
Wages	120,750	-
Travel	21,452	-
	<u>142,202</u>	<u>-</u>
<b>Research and development expenses</b>		
Wages	874,831	507,054
Trials	196,945	381,400
Other	287,967	173,899
Patent related fees	85,915	49,812
Consulting	76,491	164,204
Research funding	(56,560)	(89,353)
	<u>1,465,589</u>	<u>1,187,016</u>



## **Management's Discussion and Analysis of Financial Condition and Results of Operations for the Year ended December 31, 2008**

### **December 31, 2008**

---

The following discussion and analysis should be read in conjunction with the audited financial statements and notes for the year ended December 31, 2008 and 2007 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](http://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.

### **Risk Factors**

---

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

### **Overview**

---

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

### **NIRS Bladder (URO-NIRS):**

The Company concluded clinical trials in 2006 and 2007 that established that the uro-NIRS technology was effective in identifying various bladder dysfunctions in both men and women. As a result, during 2008 the Company commercialized two URO NIRS devices, URO NIRS 1000, or Tetra™ as licensed and trademarked by Laborie Medical Technologies Inc. (“Laborie”), described in more detail below and URO NIRS 2000™, a stand-alone unit, both designed to be used in the diagnosis of diseases of the bladder and bladder dysfunction.

Management believes that the uro-NIRS devices can deliver similar critical data faster and less costly when compared to the current standard of care which involves an expensive, painful dual catheterization procedure that is prone to complications. And, a major feature of the URO NIRS technology is that the testing of patients who exhibit UI and LUTS bladder dysfunction symptoms, using the devices is non-invasive and painless, unlike the current accepted standard that uses technology in place since 1950.

On October 22, 2007, the Company signed a seven-year agreement with Laborie to distribute the URO NIRS 1000 device, which is marketed and sold by Laborie as Tetra™, exclusively in Asia, Latin America and the Middle East and non exclusively in any other country . As a condition of the agreement, Laborie applied for and was awarded, on March 10, 2008, 510(k) approval from the U.S. Food and Drug Administration (FDA) to market the first generation Tetra™ Bladder Monitor System. Laborie also applied for and on September 2, 2008 received CE Mark approval to begin marketing the Tetra™ Bladder Monitor System in Europe. The Company sold \$154,000 of Tetra units to Laborie during 2008, mainly for additional research and trial use. Laborie is in the process of conducting marketing trials in the exclusive territories to support the product’s introduction.

The Company also commercialized the second generation URO NIRS 2000 Bladder Monitor System during the year. During the third quarter of the current year the Company submitted a 510(k) application for the URO NIRS 2000 device and subsequent to year end on January 5, 2009 it was approved by the Federal Drug Administration. In addition the Company also applied for CE Mark approval and subsequent to year end on February 26, 2009 approval was granted to sell the device in Europe.

On October 1, 2008, the Company announced that it had entered into a worldwide distribution agreement with Medical Measurement Systems B.V. (“MMS”), a leading developer and distributor of medical diagnostic systems for urology, gastroenterology and neurology headquartered in the Netherlands. MMS has the non-exclusive right to sell, market and distribute for acute care applications of the URO NIRS technology in North America and Europe and non-exclusive sales, marketing and distribution rights worldwide for the URO NIRS 2000 Bladder Monitor system. MMS is obligated to make royalty payments of 12% up to a maximum of \$250,000 on product purchases from the Company.

### **NIRS Transurethral microwave treatment (NIRS TUMT)**

During the fourth quarter of 2008 the Company’s partners presented an abstract highlighting the use of UroDynamix’s near infrared spectroscopy (NIRS) technology for non-invasive measurement of blood flow changes during minimally invasive treatments for benign prostatic hyperplasia (BPH). The abstract, entitled “Initial report of near infrared spectroscopy (NIRS) for non-invasive measurement of blood volume and flow changes to provide treatment feedback during prostate thermal therapies for BPH” was presented by Prof. Limin Liao of the China Rehabilitation Research Center, David Robertson of Boston Scientific Corporation, and Dr. Luya Li of UroDynamix Technologies. The published abstract appeared on the World Congress of Endourology website at [www.chinamed.com.cn/wce2008](http://www.chinamed.com.cn/wce2008). The presentation took place at the 26th Annual Meeting of the World Congress of Endourology (WCE) at the Shanghai International Convention Center, November 30, 2008 in Shanghai, China.

The premise of the improvement is that a current limitation of transurethral microwave thermotherapy (TUMT) devices is that individual variations in prostate blood flow can limit the effectiveness of the procedure by removing the energy directed at the prostate during the treatment. The Company has developed a non-invasive prostate blood volume flow monitor to help physicians determine when sufficient thermal energy has been delivered by TUMT and other minimally invasive therapies to destroy enlarged prostate tissue and BPH while improving the safety profile.

Animal studies were conducted by Prof. Limin Liao at the Capital Medical University in Beijing from June 2007 to November 2008. The investigators collected NIRS readings simultaneously with the delivery of TUMT with the Prolieve™ Thermodilatation System manufactured by Boston Scientific Corp. The results showed that NIRS monitoring of the prostate and rectal wall for changes in blood volume-flow may provide the ability to non-invasively monitor the progress of tissue coagulation and necrosis during thermal therapies. This may allow physicians to optimize treatment despite variations in prostate blood flow of individuals.

On April 7, 2009 the Company announced that it had received approval for \$322,000 of IRAP funding to be used to accelerate the development and commercialization of the TUMT sensor and device. The funding is expected to be received over the twelve month period ending May 31, 2010.

### **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 filed a preliminary patent application during 2008 with the United States Patent and Trademark Office covering ED-related applications of NIRS technology and intends to complete the formal application during the 2009 calendar year.

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 improve 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."

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.

During 2007, 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 conducted 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.

During the fourth quarter of 2008 the Company announced that it had entered into a product development and distribution agreement with Timm Medical Technologies Inc., a subsidiary of Plethora Solutions Holdings PLC (AIM:PLC). Timm Medical is a leading North American manufacturer and distributor of men's health and erectile dysfunction (ED) products.

In exchange for minimum quantities and additional royalty payments of up to \$100,000, the agreement grants Timm Medical exclusive worldwide distribution rights for the ED application of the near infrared spectroscopy (NIRS) technology developed by UroDynamix for the measurement of penile blood flow in male ED patients. UroDynamix and Timm Medical will collaborate on the product design and regulatory approvals in the United States and worldwide, and UroDynamix will retain all ownership of NIRS ED intellectual property.

Subject to regulatory approvals, Timm Medical expects to begin marketing NIRS ED products in the United States in 2009 via its approximately 35 member field sales force calling on specialist urology clinics. These efforts will be supplemented by an in-house support team interacting directly with patients. NIRS ED products will also be marketed internationally via an extensive distributor network upon regulatory approval.

#### **NIRS Prostate (NIRS DRE):**

During 2007, UroDynamix expanded its NIRS clinical development program to include a new application that measures blood flow in the prostate gland. Management believes that this measurement is a key indicator of prostate gland health. Management also believes that the NIRS prostate sensor technology under development will 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").

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.

During the DRE screening test for prostate cancer, a physician inserts a gloved finger into the rectum in order to be able to feel the size, shape, and texture of the prostate and other nearby organs. The

sensitivity and specificity of DRE are highly subjective and dependent upon the skill of the physician, his or her ability to interpret what he or she feels, and the nature and progression of the disease. Management believes that NIRS DRE technology will allow physicians to detect and study abnormal prostate tissue and provide objective, clinically meaningful data to help doctors make better diagnostic decisions.

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, during 2007, 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 could potentially aid in the diagnosis of disease by reducing the quantity or improving the accuracy of biopsies.

During the 2008, the Company was approved for a \$60,000 non-refundable financial contribution from the National Research Council Canada Industrial Research Assistance Program (NRC-IRAP) to help accelerate the development and commercialization of new NIRS technology for the detection of prostate cancer during the digital rectal examination, or DRE. For the year ended December 31, 2008, \$56,560 was claimed against the award. The Company completed the design and manufacture of several prototype URO NIRS prostate sensors and plans to undertake further studies in 2009 to evaluate and validate sensor design.

UroDynamix plans to advance its prostate imaging development program and initiate further clinical trials as resources permit. The Company has previously file a provisional patent application 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 Intra-Abdominal Pressure (NIRS IAP)**

During 2006, UroDynamix expanded its NIRS clinical development program to include a new invention for monitoring NIRS Interadominal Pressure (IAP) and abdominal ischemia. The Company filed a patent application in 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 (IAP FH). The IAP FH study was completed during 2008 and confirmed that NIRS IAP may be a suitable application for URO NIRS technology. The Company plans to advance the NIRS IAP technology as resources availability dictates. Management believes that NIRS IAP is a viable market opportunity.

Internal 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 result in necrosis, organ failure and ultimately death. Management believes that the monitoring of IAP may improve the treatment of CS.

UroDynamix is initially targeting 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 non-invasive monitoring of IAP could save lives.

Management believes that its NIRS IAP 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 Dragerwerk AK.

The US provisional patent application, entitled "Methods and Systems for Detecting a Condition of Compartment Syndrome," was filed on 1 December 2007. 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 during 2007, 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 ).

During 2008 Health Canada approved and the Company funded a second phase of the Foothills ACS study, enrolling 47 ICU patients and monitoring the subjects continuously for up to 7 days. The study confirmed that the NIRS technology can be used to safely and non-invasively monitor intra-abdominal pressure and abdominal ischemia in ICU and laparoscopic surgery patients. 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.

On February 2, 2008 clinical data describing the application of the Company's NIRS technology for intra-abdominal pressure (IAP) monitoring were presented by a team of clinical investigators at the Society of Critical Care Medicine's 37th Critical Care Congress in Honolulu, Hawaii. The abstract entitled "Near Infrared Spectroscopy of the Rectus Sheath During Controlled Intra-Abdominal Hypertension." examined IAP in laparoscopic surgery patients, expanding upon the Company's ICU patient study at Foothills Medical Centre in Calgary, Alberta. The study was concluded in July of 2008 and concluded 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.

## **AVID System**

In 2007, the Company discontinued direct sales of products based on its other technology, the Advanced Verification of Integral Dose System (the "AVID System") and is no longer pursuing opportunities for this product line.

The AVID System is intended to 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.

During the second quarter of 2007, 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 included an upfront licensing fee of US \$120,000, that was received in 2007 and an ongoing 5% royalty based on ARD's sales of the AVID System. ARD is currently not actively pursuing AVID system sales. The licensing fee revenue is being amortized straight-line over the five year life of the agreement.

## **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 additional securities to fund the continued development of the technology; however, there can be no assurance that funds will be available on favorable terms, if at all.

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

These financial statements are prepared in accordance with Canadian generally accepted accounting principles that require 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. Estimates are used for, but not limited to allowance for doubtful accounts, useful lives and recoverability of long lived assets, stock compensation, contingencies and the determination of the Company's ability to continue as a going concern. Actual results could differ from management's estimates.

## **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 2008 fiscal year the Company has adopted the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1400, *General Standards of Financial Statement Presentation*, Handbook Section 1535, *Capital Disclosures*, Handbook Section 3031, *Inventories*, Handbook Section 3862, *Financial Instruments – Disclosures*, Handbook Section 3863, *Financial Instruments – Presentation*, Handbook Section 3064, *Goodwill and Intangible Assets*, Handbook Section 1582, *Business*

*Combinations*, Handbook Section 1601, *Consolidation* and Handbook Section 1602, *Non Controlling Interests*. The adoption of *International Financial Reporting Standards* will be required for Canadian publicly accountable enterprises for years beginning on or after January 1, 2011.

*(a) Handbook Section 1400, General Standards of Financial Statement Presentation*

In June 2007, the CICA amended Section 1400, "General Standards of Financial Statement Presentation" to change the guidance related to management's responsibility to assess the ability of the entity to continue as a going concern. Management is required to make an assessment of an entity's ability to continue as a going concern and should take into account all available information about the future, which is at least but not limited to 12 months from the balance sheet date. Disclosure is required of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern. The amendments to Section 1400 apply to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008. The adoption of this standard had no impact on the Company's presentation of its financial position or results of operations as at December 31, 2008 and for the year then ended.

*(b) Handbook Section 1535, Capital Disclosures*

Section 1535 requires the disclosure of both qualitative and quantitative information that enables users of financial statements to evaluate (i) an entity's objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such non-compliance. The adoption of Section 1535 did not have an impact on the Company's financial results or position.

*(c) Handbook Section 3031, Inventories*

Under the new section, inventories are required to be measured at the "lower of cost and net realizable value", which is different from the previous guidance of the "lower of cost and market". Costs such as storage costs and administrative overhead that do not contribute to bringing inventories to their present location and condition are specifically excluded from the cost of inventories and expensed in the period. The new standard also requires additional disclosures including the accounting policies used in measuring inventories, the carrying amount of the inventories, amounts recognized as an expense during the period, write-downs and the amount of any reversal of any write-downs recognized as a reduction in expenses.

The Company values inventories at the lower of cost and net realizable value. Costs include the cost of purchase net of vendor allowances and other costs, such as transportation, that are directly incurred to bring inventories to their present location and condition. Inventories are written down to net realizable value when the cost of inventories is not estimated to be recoverable due to obsolescence, damage or declining selling prices. When circumstances that previously caused inventories to be written down below cost no longer exist or when there is clear evidence of an increase in selling price, the amount of the write-down previously recorded is reversed. Storage costs, indirect administrative overhead and certain selling costs related to inventories are expensed in the period these costs are incurred.

*(d) Handbook Section 3862 and 3863, Financial Instruments – Disclosure and Presentation*

Sections 3862 and 3863 replace Handbook Section 3861, *Financial Instruments – Disclosure and Presentation*, revising and enhancing its disclosure requirements and carrying forward unchanged its presentation requirements for financial instruments. Sections 3862 and 3863 place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks. The adoption of these standards did not have an impact on the classification and valuation of financial instruments.

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

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

Accordingly, the Company will adopt the standards for its fiscal year beginning January 1, 2009. The new standard establishes the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets. The Company is currently evaluating the impact of this Section on its financial statements.

*(f) Handbook Section 1582, 1601 and 1602 Business Combinations*

In January 2009, the CICA issued Section 1582, Business Combinations, Section 1601, Consolidations, and Section 1602, Non-controlling Interests. These new standards are harmonized with International Financial Reporting Standards (IFRS). Section 1582 specifies a number of changes, including: an expanded definition of a business, a requirement to measure all business acquisitions at fair value, a requirement to measure non-controlling interests at fair value, and a requirement to recognize acquisition-related costs as expenses. Section 1601 establishes the standards for preparing consolidated financial statements. Section 1602 specifies that non-controlling interests be treated as a separate component of equity, not as a liability or other item outside of equity. The new standards will become effective in 2011 but early adoption is permitted. The Company is evaluating the attributes of early adoption of this standard and its potential effects if events or transactions occurred that this standard applies to.

*(g) International Financial Reporting Standards*

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

**Outstanding Share and Warrant Data**

The authorized share capital of Urodynamix Technologies Ltd. is unlimited. At March 25, 2009 there were 107,227,893 shares outstanding. There were no common shares reserved for issuance upon the exercise of common share purchase warrants and 7,625,500 common shares reserved for issuance upon the exercise of stock options outstanding under the Stock Option Plan. Also at March 25, 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**

<b>Year Ended December 31,</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
Revenue	188,893	25,794	12,165
Net loss	(3,428,032)	(2,622,687)	(1,897,244)
Loss per common share, basic	(0.04)	(0.04)	(0.04)
Total assets	2,707,735	3,242,509	2,237,682
Total long-term financial liabilities	4,023	33,206	25,527
Cash dividends per share	Nil	Nil	Nil

**Net Loss**

The net loss for the year ended December 31, 2008, was \$3,428,032 or \$0.04 per share as compared with a net loss of \$2,622,687 or \$0.04 per share for the comparative period in 2007. The loss was offset by \$103,833 in gross profit due primarily from sales of the Company's products.

### **Revenue**

Revenue for the year ended December 31, 2008 was \$188,893 and primarily represented sales of the URO NIRS 1000 product, sold by Laborie as Tetra. Revenue for the year ended December 31, 2007 were \$25,794 and represented initial sales of the URO NIRS 1000, sold by Laborie as Tetra.

### **R&D Expenses**

R&D Expenses were \$1,465,589 for the year ended December 31, 2008, compared with \$1,187,016 for the comparative period in 2007, an increase of \$278,573. During 2008, Urodynamix's continued development of its NIRS technology. Active projects included:

- 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)

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

	<u>Dec 31</u> <u>2008</u>	<u>Dec 31</u> <u>2007</u>
Salaries and benefits	\$ 874,831	\$ 507,054
Trials	196,945	381,400
Other	287,967	173,899
Patent related fees	85,915	49,812
Consulting	76,491	164,204
Research Funding	<u>(56,560)</u>	<u>(89,353)</u>
	<u>\$ 1,465,589</u>	<u>\$ 1,187,016</u>

During 2008 the Company completed the development and commercialization of the URO NIRS 2000, and incurred ongoing expenditures on prototype design, assembly and testing for a TUMT, an ED and a DRE sensor. Salaries and benefits increased to \$874,831 from \$507,054 mainly due to increases in R&D headcount and related wages and benefits required for completion of ongoing projects. Expenditures on trials decreased to \$196,945 from \$381,400 in the prior year due to fewer trials being undertaken pending commercialization of the URO NIRS 1000 and URO NIRS 2000. The IAP trial, started in 2007, at the University of Calgary was completed during the current year and a TUMT trial was undertaken and completed during the year. Other expenses increased to \$287,967 from \$173,899 in the prior year due mainly to increased expenditures on prototypes, travel and safety testing. Expenditures on consulting decreased to \$76,491 from \$164,204 primarily due to the additional R&D headcount. Research funding decreased to \$56,560 from \$89,353 due primarily to the level of specific project support provided by IRAP and the eligibility of IRAP expenditures for financial support.

### **General and Corporate Administrative Expenses**

General and Administrative Expenses were \$1,479,343 for the year ended December 31, 2008, compared with \$1,231,298 for the comparative period in 2007, an increase of \$248,045. The increase was due mainly to increases in salaries and benefits, travel and rent the result of increased headcount, business development and new facilities, respectively, to support the Company's growth.

Amounts by major sub-category are as follows:

	<u>Dec 31</u> <u>2008</u>	<u>Dec 31</u> <u>2007</u>
Wages	\$ 815,524	\$ 718,679
Rent	135,151	78,908
Professional fees	98,406	88,367
Consulting	38,150	42,926
Investor Relations	38,405	48,513
Other	<u>214,027</u>	<u>253,905</u>
	<u>\$ 1,479,343</u>	<u>\$ 1,231,298</u>

#### ***Sales and Marketing Expenses***

Sales and marketing expenses, at \$142,202 relate to the addition of a Vice President of Business Development and a Product Manager during the third and fourth quarter of the year, respectively. The Company plans to continue to invest in sales and marketing resources and infrastructure where such expenditures advance the sales and marketing strategy of the Company's products.

Amounts by major sub-category are as follows:

	<u>Dec 31</u> <u>2008</u>	<u>Dec 31</u> <u>2007</u>
Wages	\$ 120,750	\$ -
Travel	<u>21,452</u>	<u>-</u>
	<u>\$ 142,202</u>	<u>\$ -</u>

#### ***Depreciation and Amortization***

Amortization expense relates to the amortization of property and equipment and intellectual property owned by the Company. For the year ended December 31, 2008, total amortization expense was \$43,721 compared with \$16,827 for the comparative period in 2007. The increase in amortization expense is due to increased expenditures on tooling and equipment to support manufacturing and computer and leasehold improvements capitalized to property and equipment support the growth of the company.

#### ***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 and the product was commercialized during 2008. 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, 2008. An impairment loss of \$103,692 was charged to operations for the 2008 year.

#### ***Related Parties***

During the 2008 year, the Company incurred consulting fees of \$61,560 for technical services provided by two directors. 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, 2008, was \$1,122,210 or \$0.01 per share as compared with a net loss of \$733,098 or \$0.01 per share for the comparative period in 2007. The increase in the loss was due mainly to increases in S&M and R&D headcount and the related salaries and benefits, additional R&D expenses to support the development and commercialization of the Company's products and additional

rent compared to the same period of the prior year, offset by \$29,555 of gross margin earned on \$61,142 of URO NIRS 1000 sales.

### ***R&D Expenses***

R&D Expenses were \$396,706 for the quarter ended December 31, 2008, compared with \$280,023 for the comparative period in 2007. During the fourth quarter of 2008, Urodynamix's completed the commercialization of the URO NIRS 2000 and continued development of the NIRS TUMT, NIRS DRE and NIRS ED devices. The increase in R&D expense for the quarter was primarily due to increased salaries and benefits resulting from additional headcount and the provision for bonuses in the quarter based on the achievement of certain performance objectives.

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

	<u>Dec 31</u> <u>2008</u>	<u>Dec 31</u> <u>2007</u>
Wages	\$ 272,009	\$ 136,361
Other	89,531	57,534
Trials	40,275	42,079
Patent related fees	4,029	12,422
Consulting	5,825	44,049
Research Funding	<u>(14,963)</u>	<u>-</u>
	<u>\$ 396,706</u>	<u>\$ 280,023</u>

### ***Selling and Marketing***

Selling and marketing expense were \$47,401 for the quarter ended December 31, 2008, compared with \$nil for the comparative period in 2007. The increase is mainly due to additional S&M headcount, compared to the prior year, and travel to support business development activities.

Amounts by major sub-category are as follows:

	<u>Dec 31</u> <u>2008</u>	<u>Dec 31</u> <u>2007</u>
Wages	\$ 40,250	\$ -
Other	<u>7,151</u>	<u>-</u>
	<u>\$ 47,401</u>	<u>\$ -</u>

### ***General and Corporate Administrative Expenses***

General and Administrative Expenses were \$524,343 for the quarter ended December 31, 2008, compared with \$422,203 for the comparative period in 2007 an increase of \$102,140. The increase is mainly due to additional G&A headcount and travel to support business development discussions as well as additional rent paid for the Company's new premises.

Amounts by major sub-category are as follows:

	<u>Dec 31</u> <u>2008</u>	<u>Dec 31</u> <u>2007</u>
Wages	\$ 303,517	\$ 260,633
Other	74,008	58,880
Rent	53,412	19,664
Travel	44,390	25,146
Consulting	7,400	8,371
Professional fees	29,768	35,184
Investor Relations	<u>11,848</u>	<u>14,325</u>
	<u>\$ 524,343</u>	<u>\$ 422,203</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, 2008, total amortization expense was \$18,063 compared with \$4,847 for the comparative period in 2007. The increase is due to higher level of property plant and equipment to support commercialization of the URO NIRS 2000, compared to the same period last year.

### ***Write-off of Intangible Assets***

On March 5, 2008, one of the Company's distribution partners, Laborie Medical Technologies Inc ("Laborie"), obtained 510(k) clearance from the U.S. Food and Drug Administration ("FDA") to market their urodynamics equipment with the Tetra™ Bladder Monitor System for non-invasive bladder testing. On August 12, 2008, Laborie, received approval to CE mark the Tetra device. Under the terms of its license agreement with the University of British Columbia ("UBC"), the receipt of FDA clearance and the issuance of the CE mark required milestone payments of 250,000 common shares of the Company to UBC on each milestone date. The fair market value of the Company's shares on March 5, 2008 and September 20, 2008 was \$0.235 and \$0.195, per share, respectively, or \$107,500 in total, which was recorded in intangible assets on the dates the shares were issued. The Company recorded amortization of \$3,808 during the year but determined at year end that the net realizable value was not determinable and that as a result the carrying value of the intangible asset has been written down to \$nil.

### ***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, 2008, the Company had cash and cash equivalents of \$1,762,794 and working capital of \$1,906,761. This compares with cash and cash equivalents of \$3,056,277 and a working capital position of \$2,597,567 at December 31, 2007.

Cash used in operating activities was \$3,081,350 for the year ended December 31, 2008 compared with \$2,003,791 for the comparative period in 2007. The increase in cash used in operations is due to the continued development and commercialization of the URO NIRS 2000 and the ongoing development projects for NIRS-TUMT, NIRS ED and NIRS IAP which required increases in headcount for both G&A and R&D. The Company also added new resources in selling and marketing during the year adding a VP of Business Development in June and product management resources in September of the current year.

Cash used for investing activities was \$662,553 for the year ended December 31, 2008 compared with \$15,525 for the comparative period in 2007. Expenditures include \$500,000 of cash placed in escrow concurrent with the closing of the November 5, 2008 \$2,500,000 private placement while the remainder related primarily to the tooling for production and computer hardware and software additions.

Cash provided by the issuance of new shares during the year ended December 31, 2008 was \$2,466,260 as compared to \$3,030,695 in 2007. The new share issuance in 2008 represents the November 6, 2008 private placement by BC Advantage Funds whereby 25,000,000 shares were issued at \$0.10 per share in exchange for net proceeds of \$2,466,420.

Cash used in operating activities was \$818,321 for the quarter ended December 31, 2008 compared with \$552,097 for the comparative period in 2007. The increase in cash used in operations is primarily due to increased headcount and related wage and benefit expense to support the commercialization of the URO NIRS 2000 and the ongoing development projects for NIRS TUMT, NIRS ED and NIRS IAP. Because of the stage of development of the URO NIRS 2000, the Company has incurred increased costs for prototype design and assembly, clinical trials and R&D headcount to support its commercialization. The Company has also increased travel and S&M headcount to support distribution and business development activities.

Cash used for investing activities was \$563,660, including \$500,000 of restricted cash, for the quarter ended December 31, 2008 compared with cash provided of \$5,690 for the comparative period in 2007. The fourth quarter additions relate primarily to the addition of tooling, leasehold expenditures and computer hardware and software.

Cash provided by the issuance of new shares during the quarter ended December 31, 2008 was \$2,466,420 as compared to \$nil for the comparative period in 2007. New share issuances in 2008 represents net proceeds from BC Advantage Funds private placement closed November 6, 2008.

Management believes that cash flows from operations and funds on hand will be insufficient to fund its cash requirements through the next 12 months. Accordingly, the Company plans to issue more securities at such time as it believes additional capital could be obtained 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:

2009	\$	216,923
2010		210,103
2011		<u>155,905</u>
	\$	<u>582,931</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 Company did not obtain sufficient data in order to carry out a formal patent application by March 31, 2008. If a formal patent application is not completed the Company retains the right to terminate the Agreement and not issue the shares.

The Company agreed on September 28, 2007 to issue 150,000 common shares of the Company to a director of the Company, Dr. Zeid Mohamedali, for the assignment of all rights, title and interest to the invention forming part of a provisional Prostate Imaging patent application. The Company did not obtain sufficient data in order to carry out a formal patent application by May1, 2008. If a formal patent application is not completed the Company retains the right to terminate the Agreement and not issue the shares.

## Summary of Quarterly Results

The following table sets out selected quarterly information for the year ended December 31, 2008 and the previous four quarters of 2007:

<b>Quarter Ended 2008</b>	<b>March 31</b>	<b>June 30</b>	<b>September 30</b>	<b>December 31</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Revenue	21,382	72,871	33,498	61,142
Loss	(722,081)	(846,400)	(723,360)	(1,122,210)
Loss per common share	(0.01)	(0.01)	(0.01)	(0.01)
<b>Quarter Ended 2007</b>	<b>March 31</b>	<b>June 30</b>	<b>September 30</b>	<b>December 31</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Revenue	9,237	5,679	5,631	5,247
Loss	(619,852)	(641,176)	(628,561)	(733,098)
Loss per common share	(0.01)	(0.01)	(0.01)	(0.01)



---

## CORPORATE DATA

---

DECEMBER 31, 2008

### HEAD OFFICE

Suite 1485– 555 Burrard Street  
Vancouver, BC V7X 1M9  
Tel: (604) 694-7770  
Fax: (604) 694-7771  
Email: [info@urodynamix.com](mailto:info@urodynamix.com)  
Website: [www.urodynamix.com](http://www.urodynamix.com)

### REGISTRAR & TRANSFER AGENT

Pacific Corporate Trust Company  
510 Burrard St., 2nd Floor  
Vancouver, BC V6C 3B9

### DIRECTORS AND OFFICERS

Barry J. Allen	Chairman & Chief Executive Officer
Jonathan Jackson	Chief Financial Officer
Greg Gauthier	Vice-President, Business Development
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:	107,227,893
Escrow:	130,000
Options:	7,625,500
Warrants:	Nil

### SOLICITOR

Attention: Iain Mant  
Fasken Martineau DuMoulin, LLP  
2100-1075 West Georgia Street  
Vancouver BC V6E 3G2  
Canada

### AUDITORS

Deloitte & Touche LLP  
2800 - 1055 Dunsmuir Street  
Vancouver, BC V7X 1P4

### INVESTOR CONTACT

Jonathan Jackson  
Chief Financial Officer  
Tel: (604) 638-0248  
Email: [jjackson@urodynamix.com](mailto:jjackson@urodynamix.com)

### LISTING

TSX Venture Exchange  
Trading Symbol: URO.V  
CUSIP #: 91727

---