



Interim Financial Statements
Three months ended March 31, 2007
(Unaudited – prepared by management)

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

To the Shareholders of
Urodynamix Technologies Ltd.

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

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

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

"Kevin Leong"

Kevin Leong
Chief Financial Officer

Urodynamix Technologies Ltd.
Interim Balance Sheets
(Unaudited – prepared by management)

	March 31 2007	December 31 2006
Assets		
Current		
Cash and equivalents	\$ 1,696,294	\$ 2,063,784
Receivables	135,685	91,142
Prepays	<u>32,243</u>	<u>40,902</u>
	1,864,222	2,195,828
Property and equipment (Note 4)	<u>71,028</u>	<u>41,854</u>
	<u>\$ 1,935,250</u>	<u>\$ 2,237,682</u>
Liabilities		
Current		
Payables and accruals	\$ 191,701	\$ 206,998
Deferred revenue (Note 7)	107,511	73,077
Current portion of capital lease obligations (Note 6)	<u>20,078</u>	<u>12,234</u>
	319,290	292,309
Deferred tenant inducements received	15,318	14,202
Capital lease obligations (Note 6)	<u>26,971</u>	<u>11,325</u>
	<u>361,579</u>	<u>317,836</u>
Shareholders' Equity		
Capital stock (Note 8a)	11,523,176	11,282,895
Unexercised warrants (Notes 8a and 8d)	463,635	513,916
Unexercised stock options (Note 8c)	455,112	371,435
Contributed surplus (Note 8e)	1,412,479	1,412,479
Deficit	<u>(12,280,731)</u>	<u>(11,660,879)</u>
	<u>1,573,671</u>	<u>1,919,846</u>
	<u>\$ 1,935,250</u>	<u>\$ 2,237,682</u>

Continuance of operations (Note 1)
Commitments (Note 11)

On behalf of the Board

"Paul Geyer"
Director

"James Heppell"
Director

See accompanying notes to the financial statements.

Urodynamix Technologies Ltd.
Statements of Operations, Comprehensive Loss and Deficit

(Unaudited – prepared by management)

For the three months ended March 31

	<u>2007</u>	<u>2006</u>
Revenue	\$ <u>9,237</u>	\$ <u>432</u>
Expenses		
Research and development (schedule)	323,115	139,808
General and administrative (schedule)	234,936	165,915
Marketing	-	5,513
Amortization of property and equipment	3,833	4,995
Interest expense	1,051	1,319
Stock-based compensation (Note 8c)	<u>83,677</u>	<u>54,975</u>
Total expenses	<u>646,612</u>	<u>372,525</u>
Loss from operations	<u>(637,375)</u>	<u>(372,093)</u>
Other income		
Interest income	<u>17,523</u>	<u>5,136</u>
Net loss and comprehensive loss for the period	\$ <u>(619,852)</u>	\$ <u>(366,957)</u>
Basic and diluted loss per share	\$ <u>(0.01)</u>	\$ <u>(0.01)</u>
Weighted average number of common shares outstanding	<u>65,676,898</u>	<u>43,875,096</u>
Deficit, beginning of period	\$ (11,660,879)	\$ (9,763,635)
Net loss	<u>(619,852)</u>	<u>(366,957)</u>
Deficit, end of period	\$ <u>(12,280,731)</u>	\$ <u>(10,130,592)</u>

See accompanying notes to the financial statements.

Urodynamix Technologies Ltd.
Statements of Cash Flows
(Unaudited – prepared by management)

For the three months ended March 31

	<u>2007</u>	<u>2006</u>
Cash and equivalents derived from (applied to)		
Operating		
Net loss	\$ (619,852)	\$ (366,957)
Amortization of property and equipment	3,833	4,995
Non-cash tenant inducements	1,116	(1,048)
Stock-based compensation	83,677	54,975
Non-cash research and development expenses	-	3,463
Changes in non-cash operating working capital		
Receivables	(44,543)	(2,995)
Prepays	8,659	(3,250)
Payables and accruals	(15,297)	(26,716)
Deferred revenue	34,434	(432)
	<u>(547,973)</u>	<u>(337,925)</u>
Financing		
Shares issued upon exercise of warrants	190,000	2,000
Repayment of capital lease obligations (Note 6)	(3,997)	(3,531)
	<u>186,003</u>	<u>(1,531)</u>
Investing		
Property and equipment	(5,520)	(2,200)
	<u>(5,520)</u>	<u>(2,200)</u>
Net increase in cash and equivalents	(367,490)	(341,656)
Cash and equivalents		
Beginning of period	<u>2,063,784</u>	<u>878,964</u>
End of period	<u>\$ 1,696,294</u>	<u>\$ 537,308</u>

Statement of cash flows – supplementary information (Note 12)

See accompanying notes to the financial statements.

Urodynamix Technologies Ltd.

Notes to the Financial Statements

March 31, 2007 and 2006

1. Operations and going concern assumption

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

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

The Company has a history of operating losses, is currently developing technology on a long term basis with uncertain prospects, and has no significant source of revenue.

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

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

2. Summary of significant accounting policies

Basis of presentation

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

Use of estimates

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

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 ninety days of deposit without penalty, and intended for short term use in operations.

Property and equipment

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

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

Urodynamix Technologies Ltd.

Notes to the Financial Statements

March 31, 2007 and 2006

2. Summary of significant accounting policies (continued)

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.

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.

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.

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.

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.

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 on a systematic basis over the vesting period, on a straight-line basis.

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.

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.

Urodynamix Technologies Ltd.

Notes to the Financial Statements

March 31, 2007 and 2006

2. Summary of significant accounting policies (continued)

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.

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.

Revenue recognition

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

The Company uses the residual method to allocate the consideration for a software revenue arrangement which includes both software and ongoing customer support. Under the residual method the amount of consideration allocated to the delivered item (software) equals the total arrangement consideration less the fair value of the undelivered item (ongoing customer support).

Revenues related to ongoing customer support and product upgrades are recognized on a straight-line basis over the life of the contract, which is typically 24 months. Product license fees and support and upgrade revenues that have been prepaid but do not yet qualify for recognition under the Company's revenue recognition policy are reflected as deferred revenue on the balance sheet.

Hardware sale revenue, net of trade discounts and allowances, is recognized upon shipment when all significant contractual obligations have been satisfied and collection from the customer is considered reasonably assured.

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.

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.

Urodynamix Technologies Ltd.

Notes to the Financial Statements

March 31, 2007 and 2006

2. Summary of significant accounting policies (continued)

Share and Warrant Units

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

3. Changes in accounting policies

Financial instruments

Effective with the commencement of the 2007 fiscal year, the Company has adopted the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1530 - Comprehensive Income, CICA Handbook Section 3855 - Financial Instruments: Recognition and Measurement, and Handbook Section 3865 - Hedges. These new Handbook Sections set out requirements for the recognition and measurement of financial instruments, as well as standards on when or how hedge accounting may be applied. Handbook Section 1530 also establishes standards for reporting and displaying comprehensive income. Comprehensive income is defined as the change in equity from transactions and other events from non-owner sources. Other comprehensive income refers to items recognized in comprehensive income but that are excluded from net income calculated in accordance with Generally Accepted Accounting Principles (GAAP).

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

Held-for-trading financial investments are measured at fair value and all gains and losses are included in net income in the period in which they arise. Available-for-sale financial instruments are measured at fair value with revaluation gains and losses included in other comprehensive income until the asset is removed from the balance sheet. The Company has also classified its accounts receivables and other receivables as "Loans and receivables", and its accounts payable and accrued liabilities as "Other financial liabilities", all of which are measured at amortized cost.

Upon adoption of the new standards, the Company continued to account for cash and equivalents as held-to-maturity investments, recorded at costs and accrued interest.

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

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

Urodynamix Technologies Ltd.
Notes to the Financial Statements
 March 31, 2007 and 2006

4. Property and equipment

		<u>March 31 2007</u>	
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>
Office furniture and equipment	\$ 62,546	\$ 22,083	\$ 40,463
Computer and laboratory equipment	<u>126,725</u>	<u>96,160</u>	<u>30,565</u>
	<u>\$ 189,271</u>	<u>\$ 118,243</u>	<u>\$ 71,028</u>

		<u>December 31 2006</u>	
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>
Office furniture and equipment	\$ 30,492	\$ 20,691	\$ 9,801
Computer and laboratory equipment	<u>125,772</u>	<u>93,719</u>	<u>32,053</u>
	<u>\$ 156,264</u>	<u>\$ 114,410</u>	<u>\$ 41,854</u>

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

		<u>March 31 2007</u>	
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>
Office furniture and equipment	\$ 32,987	\$ 4,399	\$ 28,588
Computer and laboratory equipment	<u>58,554</u>	<u>41,671</u>	<u>16,883</u>
	<u>\$ 91,541</u>	<u>\$ 46,070</u>	<u>\$ 45,471</u>

		<u>December 31 2006</u>	
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>
Office furniture and equipment	\$ 5,500	\$ 3,771	\$ 1,729
Computer and laboratory equipment	<u>58,554</u>	<u>40,302</u>	<u>18,252</u>
	<u>\$ 64,054</u>	<u>\$ 44,073</u>	<u>\$ 19,981</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.

Urodynamix Technologies Ltd.

Notes to the Financial Statements

March 31, 2007 and 2006

5. Intangible assets

The Company entered into a licence agreement with the University of British Columbia ("UBC"), dated May 30, 2005 which was subsequently amended, in respect to the Near Infra Red 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 (Note 8a)), 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. The Company completed a prototype late in the 2006 year. During the 2006 year, the Company incurred reimbursements to UBC of patent costs of \$39,840 (2005: \$25,209) that have been reported as additional costs of the intangible asset.

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

6. Capital lease obligations

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

2007	\$	20,054
2008		22,762
2009		12,555
2010		1,908
		<hr/>
		57,279
Less: interest at average rate of 18%		<hr/> (10,230)
		47,049
Less: current portion		<hr/> (20,078)
	\$	<hr/> 26,971

Urodynamix Technologies Ltd.
Notes to the Financial Statements
 March 31, 2007 and 2006

7. Sublicence Agreement

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

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

The initial licence fee received of \$88,862 (\$80,000 US), net of related expenses of \$6,596 is being recognized as revenue on a straight line basis over the five year term of the agreement, assuming that the agreement is maintained. Revenue of \$3,912 has been recognized for the three month period ended March 31, 2007, and the remaining balance of \$70,796 has been included in deferred revenue at March 31, 2007.

On April 30, 2007, the Sublicensee made the final payment of \$40,000 US as required under the agreement. Consequently, the allowance against the receivable that was provided at December 31, 2006 has been reversed. Additional deferred revenue of \$47,412, net of related expenses of \$3,741, has been recorded at March 31, 2007. Additional revenue of \$4,893 has been recognized for the three month period ended March 31, 2007.

8. Capital stock

(a) Authorized and issued shares

	<u>Common Shares</u>		<u>Warrants</u>	
	<u>Number</u>	<u>Amount</u>	<u>Number</u>	<u>Amount</u>
Authorized:				
Unlimited number of common shares without par value				
Issued:				
Balance, December 31, 2005	43,859,392	\$ 8,565,120	32,220,454	\$ 1,017,230
Issued as new warrants (i)	-	-	9,818,000	354,400
Issued on exercise of amended warrants (net of costs of \$7,097) (i)	19,636,000	2,475,362	(19,636,000)	(417,534)
Issued on exercise of warrants	1,183,095	128,517	(1,183,095)	(26,080)
Issued on exercise of options	508,000	113,896	-	-
Expiration of warrants	-	-	(4,265,454)	(414,100)
Balance, December 31, 2006	65,186,487	\$ 11,282,895	16,953,905	\$ 513,916
Issued on exercise of warrants	1,900,000	240,281	(1,900,000)	(50,281)
Balance, March 31, 2007	<u>67,086,487</u>	<u>\$ 11,523,176</u>	<u>15,053,905</u>	<u>\$ 463,635</u>

(i) Effective June 30, 2006, the Company temporarily amended all of those outstanding warrants expiring in March and August of 2007 such that upon payment of the applicable exercise prices of \$0.10 and \$0.125 respectively, the holder would receive one unit instead of one common share (one unit consisting of one common share and one half warrant). Each whole new warrant allows the holder to acquire one common share at a price of \$0.20 per share until July 24, 2007. The warrant incentive program expired on July 24, 2006.

The Company received \$2,419,325 in gross proceeds from the exchange of outstanding warrants. 1,407,000 of the warrants with a \$0.10 exercise price and 18,229,000 of the warrants with a \$0.125 exercise price were exchanged. 9,818,000 new warrants were issued.

Urodynamix Technologies Ltd.
Notes to the Financial Statements
 March 31, 2007 and 2006

8. Capital stock (continued)

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

	<u>2006</u>
Risk-free rate of return	4.18%
Dividend yield	Nil
Expected volatility	114%
Expected life of warrant	1 year

(b) Shares held in escrow

At March 31, 2007, 130,000 (2006 - 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:

	<u>Number</u>	<u>Amount</u>	<u>Weighted Average Exercise Price Per Share</u>
Outstanding, December 31, 2005	2,940,000	\$ 209,037	\$ 0.15
Granted	3,974,000	270,381	0.15
Exercised	(508,000)	(42,319)	0.12
Cancelled	(572,000)	(65,664)	0.20
	<hr/>		
Outstanding, December 31, 2006	5,834,000	371,435	0.15
Granted	475,000	83,677	0.15
	<hr/>		
Outstanding, March 31, 2007	<u>6,309,000</u>	<u>\$ 455,112</u>	<u>\$ 0.15</u>

Urodynamix Technologies Ltd.
Notes to the Financial Statements
 March 31, 2007 and 2006

8. Capital stock (continued)

Stock options (continued)

The following table summarizes stock options outstanding and exercisable at March 31, 2007:

<u>Number Outstanding</u>	<u>Average Remaining Contractual Life (In Years)</u>	<u>Weighted Average Exercise Price Per Share</u>
150,000	1.1	\$0.10
250,000	2.0	0.30
200,000	2.5	0.19
1,760,000	3.5	0.12
200,000	4.2	0.13
3,274,000	4.6	0.15
325,000	3.8	0.15
<u>150,000</u>	<u>4.9</u>	<u>0.14</u>
<u>6,309,000</u>	<u>4.0</u>	<u>\$0.15</u>
<u>Number Exercisable</u>	<u>Average Remaining Contractual Life (In Years)</u>	<u>Weighted Average Exercise Price Per Share</u>
<u>2,964,831</u>	<u>3.5</u>	<u>\$0.15</u>

During the three months ended March 31, 2007, the Company recorded \$83,677 (2006 – \$54,975) 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:

	<u>2007</u>	<u>2006</u>
Risk-free rate of return	3.93%	3.76%
Dividend yield	Nil	Nil
Expected volatility	111%	113%
Expected life of option	5 years	5 years

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

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.

Urodynamix Technologies Ltd.
Notes to the Financial Statements
 March 31, 2007 and 2006

8. Capital stock (continued)

(d) Warrants

A summary of share warrant activity follows:

Outstanding, December 31, 2005	32,220,454
Issued	9,818,000
Exercised	(20,819,095)
Expired	<u>(4,265,454)</u>
Outstanding, December 31, 2006	16,953,905
Exercised	<u>(1,900,000)</u>
Outstanding, March 31, 2007	<u>15,053,905</u>

The following table summarizes information concerning warrants outstanding and exercisable at March 31, 2007:

Number Outstanding and <u>Exercisable</u>	Average Remaining Contractual Life <u>(In Years)</u>	Weighted Average Exercise
4,778,000	0.4	0.2
457,905	0.4	0.0
<u>9,818,000</u>	<u>0.3</u>	<u>0.2</u>
<u>15,053,905</u>	<u>0.3</u>	<u>\$0.2</u>

(e) Contributed surplus

Balance, December 31, 2005	\$ 944,012
Options cancelled	54,367
Expiration of warrants	<u>414,100</u>
Balance, December 31, 2006 and March 31, 2007	<u>\$ 1,412,479</u>

Urodynamix Technologies Ltd.
Notes to the Financial Statements
 March 31, 2007 and 2006

9. Income taxes

Income tax expense recorded in these consolidated 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:

	<u>March 31</u> <u>2007</u>	<u>December 31</u> <u>2006</u>
Loss before income taxes	\$ (619,852)	\$ (1,897,244)
Expected tax recovery at combined federal and provincial rates of 34.1% (2005: 34.9%)	\$ (211,370)	\$ (646,960)
Stock-based compensation	28,534	92,200
Financing fees	-	(32,966)
Other	65,579	114,726
Change in valuation allowance	<u>117,257</u>	<u>473,000</u>
Income tax provision	<u>\$ Nil</u>	<u>\$ Nil</u>

Future income tax assets consist of the following temporary differences:

	<u>March 31</u> <u>2007</u>	<u>December 31</u> <u>2006</u>
Losses carried forward	\$ 2,243,000	\$ 2,127,000
Intangible assets	357,000	357,000
Property and equipment	41,000	46,000
Financing fees	82,000	82,000
Other	42,000	30,000
Valuation allowance	<u>(2,765,000)</u>	<u>(2,642,000)</u>
	<u>\$ Nil</u>	<u>\$ Nil</u>

The Company has operating losses totalling approximately \$6,239,000 available to offset future taxable income. These operating losses expire if unutilized as follows:

2008	\$ 317,000
2009	315,000
2010	931,000
2014	1,944,000
2015	1,079,000
2026	1,501,000
2027	<u>492,000</u>
	<u>\$ 6,579,000</u>

Urodynamix Technologies Ltd.
Notes to the Financial Statements
March 31, 2007 and 2006

10. Related party transactions

a) During the three months ended March 31, 2006, the Company incurred consulting fees of \$45,000 for services provided by a company controlled by a director.

b) During the three months ended March 31, 2007, a total of 733,000 warrants at an exercise price of \$0.10 were exercised by directors for total proceeds of \$73,300.

During the 2006 year, pursuant to the private placements detailed in Notes 8(a) and (d), a total of 1,441,000 warrants at an exercise price of \$0.125 and 333,000 warrants at an exercise price of \$0.10 were exercised by directors and companies controlled by or related to directors, for total proceeds of \$180,125 and \$33,300 respectively.

c) During the 2006 year, a total of 199,000 warrants at an exercise price of \$0.10 and 167,000 warrants at an exercise price of \$0.125 were exercised by officers for total proceeds of \$19,900 and \$20,875 respectively.

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

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

11. Commitments

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

2007	\$ 60,107
2008	84,938
2009	81,342
2010	70,781
	<u>\$ 297,168</u>

Urodynamix Technologies Ltd.
Notes to the Financial Statements
March 31, 2007 and 2006

12. Statement of cash flows – supplementary information

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

	2007	2006
Cash paid for income taxes	\$ —	\$ —
Cash paid for interest	\$ 1,051	\$ 1,319

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

- (i) During the three months ended March 31, 2007, the Company issued options to an officer and a consultant to acquire 150,000 common shares of the Company as described in Note 8(c). The estimated fair value of these options, totalling \$16,950, is to be recognized over the vesting period. An amount of \$5,297 was charged to operations for the 2007 period.
- (ii) During the three months ended March 31, 2007, the Company issued options to the ASTC Science World Society, a charitable organization, to acquire 325,000 common shares of the Company as described in Note 8(c). The estimated fair value of these options, totalling \$39,325, is to be recognized over the vesting period. An amount of \$11,959 was charged to operations for the 2007 period.
- (iii) During the three months ended March 31, 2007, the Company acquired property and equipment at a cost of \$27,487 for which it assumed obligations under capital leases.

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

13. Subsequent events

In April 2007, a total of 326,000 warrants at an exercise price of \$0.20 were exercised for total proceeds of \$65,200.

14. Comparative figures

Certain of the comparative figures for the 2006 year have been reclassified to conform to the presentation adopted for the 2007 year.

Urodynamix Technologies Ltd.

Three months ended March 31, 2007 and 2006

Schedule of Research and Development Expenses

	<u>2007</u>		<u>2006</u>
Wages	\$ 113,846	\$	90,576
Consulting	44,767		3,807
Trials	116,827		36,985
Research funding	(40,494)		(4,500)
Other	88,169		12,940
	<u>\$ 323,115</u>	\$	<u>139,808</u>

Schedule of General and Administrative Expenses

	<u>2007</u>		<u>2006</u>
Wages	\$ 160,346	\$	56,372
Consulting (Note 10a)	12,928		45,000
Professional fees	5,622		7,386
Investor relations	4,697		8,336
Rent	19,664		17,034
Other	31,679		31,787
	<u>\$ 234,936</u>	\$	<u>165,915</u>



Management's Discussion and Analysis of Financial Condition and Results of Operations for the Three months ended March 31, 2007

March 31, 2007

The following discussion and analysis should be read in conjunction with the unaudited financial statements and notes for the three months ended March 31, 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

Forward-Looking Statements

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

Overview

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

The change was made to reflect the Company's focus on urology, bladder diagnostics and monitoring solutions. The Company's business strategy is to commercialize proprietary device technologies, which offer significant market potential and the opportunity to dramatically impact the delivery of healthcare by urologists, gynecologists, and family physicians.

NIRS Urodynamics

In 2005, the Company completed a definitive License Agreement with The University of British Columbia (UBC) for an innovative diagnostic technology developed at the Vancouver General Hospital. The technology using near-infrared spectrophotometry (NIRS), provides non-invasive diagnosis of diseases of the bladder and diagnostic testing for patients who experience urinary incontinence (UI) and bladder dysfunction. The terms of the agreement grant Urodynamix exclusive, global rights to develop, manufacture and market the technology.

UI is a widespread condition with severe economic and psychosocial impact. The World Health Organization estimates that it affects over 200 million people worldwide. UI most often affects middle-aged women, long-term care residents, and those with spinal cord injuries. The condition is a particular problem in the developing world where childbirth complications leave many women with damaged bladders. UI also affects a large and growing percentage of men who are characterized as having lower urinary tract symptoms (LUTS)

LUTS are often associated with an enlarged prostate; however the symptoms alone cannot be used to make a diagnosis since they may reflect the effects of prostate disease as well as functional changes in the bladder. The current diagnosis relies upon the International Prostate Symptom Score questionnaire developed more than a decade ago in combination with urinalysis, serum prostate-specific antigen (PSA) test and digital rectal examination. Invasive pressure-flow urodynamic studies currently offer the only way to differentiate between bladder outlet obstruction and a failing detrusor muscle.

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

Pressure urodynamics study (UDS) is the current standard of care for diagnosing various bladder diseases. UDS comprises a wide variety of clinical tests including an invasive procedure which involves simultaneous urethral and rectal catheterization and direct observation of voiding. As a result, the collection of data is limited by a subject's willingness to be catheterized and the data itself is compromised by the unnatural setting and urethral catheter interfering with voiding. In addition, the use of catheters poses a significant health risk in some patients, particularly pediatrics. The direct costs are due to the labour intensive nature of the procedure requiring a technician trained in safe catheterization in addition to the urologist.

By comparison UroDynamix's licensed technology, URO-NIRS, is a non-invasive device integrating an external control unit and an adhesive disposable optical sensor that is placed directly on the abdomen over the bladder. The painless non-invasive exam uses energy from light (NIRS) to gather data about bladder health and function. The Company believes that URO-NIRS can deliver similar critical data to the current dual catheter procedure. NIRS works by emitting near-infrared light into the tissue, and recording the light received at the detector optode fixed to the skin. The tissue absorbs light differently dependent on the presence of cells such as oxygen-carrying blood cells called hemoglobins, accordingly the changes in the bladder can be measured and analyzed by interpreting the changes in the amount of hemoglobin and other cells present in the bladder to derive urodynamics.

Management believes the URO-NIRS device will be a straightforward, low-cost and non-invasive diagnostic device. Other factors that could positively affect the URO-NIRS device sales potential are:

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

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

In April 2006, the Company decided to extend the coverage of its intellectual properties to take advantage of the national phase of the above PCT filing. Patent applications were filed in China, Japan and major European countries. The Company intends to file additional patent applications to further strengthen the URO-NIRS patent portfolio in a variety of clinical applications.

As per the terms of the Company's license agreement with UBC, UroDynamix has the exclusive global rights to develop, manufacture and market the URO-NIRS technology.

During July 2006, UroDynamix successfully completed its first major sponsored clinical trial of its URO-NIRS technology. The trial was separated into two parts, the Prostate Study and the Stress Urinary Incontinence and Overactive Bladder in women study (SUI & OAB Study).

The Prostate Study focused on male patients with prostate disease. The results showed that in 100% of "Positive" patients (n=18) including lower urinary tract symptoms, obstruction, benign prostatic hyperplasia (BPH), and prostate cancer, URO-NIRS accurately measured and identified bladder activities statistically significantly in advance of Uroflow compared to "Normal" subjects (n=15) undergoing the same procedure. The Prostate Study showed that the "Positive" subjects recorded bladder activity on average 29.22.seconds +/- 20.34 standard deviation in advance of recorded Uroflow. "Normal" subjects recorded bladder activity on average 8.47 seconds +/- 4.79 standard deviation in advance of recorded Uroflow.

In a statistical diagnosis test, the area under the ROC curve (AUC) was 0.91 (ROC curve or Receiver Operating Characteristics curve is a plot of the true positive rate against the false positive rate for a statistical diagnosis test). The study concluded that NIRS provided quantifiable evidence of the presence or absence of obstruction in this study population. Furthermore, NIRS offered this reliable information in a non-invasive and simple procedure that is not currently available.

In addition, the Prostate Study showed statistically significant differences in measured changes in oxygenated hemoglobin (HbO₂), hemoglobin (Hb), and cytochromes (Cyt) for "Positive" versus "Normal". Absolute changes in concentrations over the voiding period yield AUC of 0.84, 0.81 and 0.77 respectively for HbO₂, Hb, and Cyt.

The SUI and OAB Study focused on female patients with SUI or OAB. The results showed that NIRS oxygenated hemoglobin (HbO₂), deoxygenated hemoglobin (Hb), and cytochromes (Cyt) parameters provide measurable and significant clinical data during the urodynamic procedure for subjects previously diagnosed with OAB and SUI. The study concluded that NIRS provided quantifiable evidence of OAB and SUI in this study population. NIRS offered this reliable information in a non-invasive and simple procedure that is not currently available.

In addition, the study showed statistically significant differences in measured changes in HbO₂, Hb, and Cyt for Positive versus Normal subjects. For OAB vs. Normal, absolute changes in concentrations over the filling period yield areas under ROC curves (AUC) of 0.80, 0.85 and 0.88 respectively for HbO₂, Hb, and Cyt. For SUI vs. Normal, absolute changes in concentrations over the filling period yield AUC of 0.75, 0.81 and 0.83 respectively for HbO₂, Hb, and Cyt. ROC, or receiver operating characteristic, is a standard statistical analysis apparatus indicating the relationship between the true positive rate and the false positive rate where 1.0 is considered a perfect diagnostic test.

In February 2007, the Company announced its most significant results from the NIRS Prostate Study 2. This clinical study, supported in part by the Industrial Research Assistance Program, was conducted by Drs. Lynn Stothers and Andrew Macnab from October 2006 to January 2007 at the UBC Hospital Bladder Care Centre.

The study enrolled 35 male subjects, including 25 pathological subjects with LUTS or lower urinary tract symptoms at risk for obstruction due to prostate disease and 10 healthy normal subjects. LUTS is a common term used to describe the range of urinary symptoms that may be linked with prostate disease or changes in the bladder caused by neurological disease, stroke, Parkinson's Disease, certain drugs, infections or irritable bladder. The prevalence of LUTS is believed to be as high as 90% in men aged 50 to 80 years old.

The study identified changes in the NIRS patterns corresponding with physiological changes, allowing the Company to develop a series of algorithms that predict the presence or absence of obstruction in subjects when NIRS is used in conjunction with uroflow versus catheter-based cystometry and uroflow combined (13 = obstructed, 10 = normal, 6 = unobstructed with abnormal flow, 6 = equivocal). The study found NIRS patterns plus uroflow data accurately predicted the conditions in 32 out of 34 subjects (23 of 25 pathological subjects and nine of nine normal subjects).

This study indicated that pathological subjects exhibited significant bladder activity on average 26.11 seconds (± 17.50 standard deviations) in advance of recorded uroflow. Normal subjects exhibited bladder activity on average 8.00 seconds (± 3.13 standard deviations) in advance of recorded uroflow.

Statistical analysis showed that the area under the ROC curve (a plot of the true positive rate against the false positive rate for a diagnostic test) was 0.98, indicating that NIRS provided quantifiable evidence when the disease state was a result of obstruction of the urethra, versus overactive bladder or other causes.

The data from NIRS Prostate Study 2 corroborate results obtained in a previous study conducted at the UBC Bladder Care Centre

In March 2007, the Company announced results from its NIRS Female UI Study 2 that was carried out from October 2006 to January 2007 and enrolled a total of 28 female subjects. The study included 19 pathological female subjects, all of whom presented with symptoms of UI such as stress urinary incontinence ("SUI"), overactive bladder ("OAB") or related symptoms. The other nine subjects were healthy normal females.

The findings from the study allowed the Company to develop a technique to help diagnose the presence or absence of SUI or OAB in female subjects when NIRS is used in conjunction with non-invasive uroflow and/or catheter-based filling procedures.

The data showed that NIRS measurements in subjects diagnosed with urinary incontinence differed measurably and significantly from normal subjects during the study. The study concluded that NIRS provided quantifiable evidence of pathologies in this study population. Future studies will focus on categorizing different female pathologies.

This study confirmed that NIRS detected physiological activities in the bladder. Statistical analysis showed that significant changes in HbO₂, Hb, and Cyt were detected in pathological versus normal subjects. The area under the ROC curve (a plot of the true positive rate against the false positive rate for a diagnostic test) for changes in the absolute concentrations of HbO₂, Hb, and Cyt were 0.77, 0.76 and 0.78 respectively.

The data from Female UI Study 2 corroborate results obtained in a previous study carried out at the UBC Bladder Care Centre.

Urodynamic management estimates that commercialization of a NIRS Urodynamics device will take place by the end of 2007.

NIRS Compartment Syndrome (CS)

During 2006, Urodynamic expanded its near infrared spectroscopy ("NIRS") clinical development program to include a new invention for acute Compartment Syndrome ("CS"). The Company filed a patent application in early 2007 extending its intellectual property portfolio to encompass CS applications and released the results of a preliminary CS clinical study completed at Foothills Medical Center in Calgary, Alberta.

CS is a common but life-threatening condition that occurs in the abdomen and limbs following traumatic, hemorrhagic, surgical or vascular injuries. Inflammatory response, capillary leakage and tissue edema lead to elevated pressure within a closed anatomical space, resulting in decreased blood flow to the tissues and organs, followed by ischemia, sepsis and other severe complications. If undiagnosed and untreated, CS may cause cellular damage that results in necrosis, organ failure and ultimately death.

Urodynamic will initially target CS applications related to Abdominal Compartment Syndrome ("ACS"), which is multiple organ dysfunction caused by intra-abdominal hypertension ("IAH") or elevated intra-abdominal pressure ("IAP"). 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 IAH presents in up to 50% of intensive care patients and is therefore a condition that should be monitored in all ICU patients. Untreated IAH can advance to ACS, which is considered fatal if untreated.

The Company believes that its NIRS platform technology will allow the early detection of ischemia caused by IAH and replace more invasive diagnostic methods by allowing continuous, non-invasive, and cost-effective monitoring of patients at risk of developing IAH and ACS, thereby greatly reducing morbidity and improving

mortality. The Company has developed a prototype device whereby changes in IAP are measured via application for a NIRS patch to 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, there are approximately 60,000 adult ICU beds in the United States, which equates to nearly 5 million adult ICU patients per year in North America alone. This represents a significant initial market opportunity for the Company's ACS 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 orthopaedic surgical recovery units, and emergency departments.

The CS development program is expected to be highly synergistic with the Company's URO-NIRS urology product. Furthermore, Urodynamix believes that its NIRS platform technology is uniquely suited to address the unmet medical need for continuous, non-invasive ACS monitoring, and that it is well-positioned to capitalize upon a significant market opportunity.

In a preliminary clinical study of Intensive Care Unit ("ICU") patients at Foothills Medical Center in Calgary, the Company's prototype device was used to continuously record NIRS data over 24 hours of patients at risk of developing ACS. IAP measurements were also recorded from the bladder using intermittent conventional invasive techniques. Sixty-six (66) paired IAP and NIRS readings were taken from ten (10) 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 ($p = 0.008$).

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

Health Canada has approved and the Company is funding a second phase of the Foothills ACS study, which will enroll up to 70 ICU patients and will monitor subjects continuously for up to 7 days. Confirmatory data from a larger patient population is expected to be available in 2007.

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

NIRS Erectile Dysfunction (NIRS ED)

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

Over 30 million American men suffer from ED, 85% of which is attributable to physical conditions. Published data suggest that in 1995 over 152 million men worldwide experienced ED, and by 2025 the prevalence of ED will have increased to approximately 322 million. This condition represents a serious challenge for healthcare policy makers seeking to prevent or alleviate ED and control healthcare expenditures.

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

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

Urodynamix 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.

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

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

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.

Erectile dysfunction 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.

In 2006, the American Urological Society's Erectile Dysfunction Clinical Guidelines Panel noted that "new, clinically applicable instruments are needed to diagnose ED and to assess treatment satisfaction." Other methods of vascular evaluation, such as cavernosometry or penile ultrasonography, remain controversial due to a lack of standardized diagnostic methods.

AVID System

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

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

AVID is used by medical physicists in the quality assurance and verification of patient treatment plans for IMRT (Intensity Modulated Radiation Therapy). 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 AVID is required to perform the necessary step of verifying the accuracy and efficacy of the proposed treatments plan prior to delivery to the patients.

Critical Accounting Policies and Estimates

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

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

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

Use of Estimates

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

Revenue Recognition

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

The Company uses the residual method to allocate the consideration for a software revenue arrangement which includes software and ongoing customer support. Under the residual method the amount of consideration allocated to the delivered item (software) equals the total arrangement consideration less the fair value of the undelivered item (ongoing customer support).

Revenues related to ongoing customer support and product upgrades are recognized on a straight-line basis over the life of the contract, which is typically 12 months. Product license fees and support and upgrades revenues that have been prepaid but do not yet qualify for recognition under the Company's revenue recognition policy are reflected as deferred revenue on the balance sheet.

Hardware sale revenue, net of trade discounts and allowances, is recognized upon shipment when all significant contractual obligations have been satisfied and collection from the customer is considered reasonably assured

Royalty revenue earned under sublicensing agreements is recognized as royalties are earned, provided collection from the sublicense 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.

Property and Equipment

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

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

Leasehold improvements are amortized on the straight-line basis over the term of the lease.

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.

The Company includes in the cost of intangible assets amounts expended in applying for patents, as well as costs that it incurs as reimbursements of patent application costs incurred by the University of British Columbia ("UBC"), on the basis that such reimbursements represent additional cost of licensing rights acquired, provided that the Company considers the amounts fully recoverable.

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.

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.

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.

Stock options

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

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 measure adjustments..

Government assistance

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.

Share issue costs

Professional, consulting and regulatory fees as well as other costs directly attributable to financing transactions are deferred 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.

Future income taxes

The Company follows the asset and liability method of the accounting for income taxes. Future income taxes are provided for temporary differences between the tax basis of an asset and 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 and liabilities are not recorded when it is considered not likely that the future benefit will not be realized.

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.

Changes in accounting policies

Effective with the commencement of the 2007 fiscal year, the Company has adopted the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1530 - Comprehensive Income, CICA Handbook Section 3855 - Financial Instruments: Recognition and Measurement, and Handbook Section 3865 - Hedges. These new Handbook Sections set out requirements for the recognition and measurement of financial instruments, as well as standards on when or how hedge accounting may be applied. Handbook Section 1530 also establishes standards for reporting and displaying comprehensive income. Comprehensive income is defined as the change in equity from transactions and other events from non-owner sources. Other comprehensive income refers to items recognized in comprehensive income but that are excluded from net income calculated in accordance with Generally Accepted Accounting Principles (GAAP).

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

Held-for-trading financial investments are measured at fair value and all gains and losses are included in net income in the period in which they arise. Available-for-sale financial instruments are measured at fair value with revaluation gains and losses included in other comprehensive income until the asset is removed from the balance sheet. The Company has also classified its accounts receivables and other receivables as "Loans and receivables", and its accounts payable and accrued liabilities as "Other financial liabilities", all of which are measured at amortized cost.

Upon adoption of the new standards, the Company continued to account for cash and equivalents as held-to-maturity investments, recorded at costs and accrued interest.

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

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.

Outstanding Share and Warrant Data

The authorized share capital of Urodynamix Technologies Ltd. is unlimited. At March 31, 2007 there were 67,086,487 shares outstanding (December 31, 2006: 65,186,487). There were 15,053,905 common shares reserved for issuance upon the exercise of common share purchase warrants (December 31, 2006: 16,953,905) and 6,309,000 common shares reserved for issuance upon the exercise of stock options outstanding under the Stock Option Plan (December 31, 2006: 5,834,000). Also at December 31, 2006, 130,000 (2005: 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

Net Loss

The net loss for the three months ended March 31, 2007, was \$619,852 or \$0.01 per share as compared with a net loss of \$366,957 or \$0.01 per share for the comparative period in 2006.

R&D Expenses

R&D Expenses were \$323,115 for the three months ended March 31, 2007, compared with \$139,808 for the comparative period in 2006. During the first three months of 2007, Urodynamix's development projects include applications of NIRS technology in urodynamics, compartment syndrome and erectile dysfunction. Because of the higher number of projects, the Company has incurred increased costs for prototype design and assembly, clinical trials and R&D headcount. For the comparative period in 2006, Urodynamix had one project in development, NIRS Urodynamics.

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

	<u>Mar 31</u> <u>2007</u>	<u>Mar 31</u> <u>2006</u>
Wages	\$ 113,846	\$ 90,576
Consulting	44,767	3,807
Trials	116,827	36,985
Research Funding	(40,494)	(4,500)
Other	88,169	12,940
	<u>\$ 323,115</u>	<u>\$ 139,808</u>

General and Corporate Administrative Expenses

General and Administrative Expenses were \$234,936 for the three months ended March 31, 2007, compared with \$165,915 for the comparative period in 2006. The major cause of the increase in G&A is the costs related to increased headcount.

Amounts by major sub-category are as follows:

	<u>Mar 31</u> <u>2007</u>	<u>Mar 31</u> <u>2006</u>
Wages	\$ 160,346	\$ 56,372
Consulting	12,928	45,000
Professional fees	5,622	7,386
Investor Relations	4,697	8,336
Rent	19,664	17,034
Other	31,679	31,787
	<u>\$ 234,936</u>	<u>\$ 165,915</u>

Marketing Expenses

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

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

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

On April 30, 2007, the Sublicensee made the final payment of \$40,000 US as required under the agreement. Consequently, the allowance against the receivable at December 31, 2006 has been reversed. Additional deferred revenue of \$47,412, net of related expenses of \$3,741, has been recorded at March 31, 2007. Additional revenue of \$4,893 has been recognized for the three month period ended March 31, 2007.

The initial licence fee received of \$88,862 (\$80,000 US), net of related expenses of \$6,596 is being recognized as revenue on a straight line basis over the five year term of the agreement, assuming that the agreement is maintained. Revenue of \$3,912 has been recognized for the three month period ended March 31, 2007, and the remaining balance of \$70,796 has been included in deferred revenue at March 31, 2007.

Depreciation and Amortization

Amortization expense relates to the amortization of capital assets and intellectual property owned by the Company. For the three months ended March 31, 2007, total amortization expense was \$3,833 compared with \$4,995 for the comparative period in 2006. The decrease in amortization expense is due to the write-off at the end of fiscal 2006 of the remaining carrying cost of the Company's investment in the NIRS technology.

Write-off of intangible assets

On May 30, 2005, the Company entered in a license agreement with the University of British Columbia for the exclusive rights to Near Infra Red Spectrophotometry ("NIRS") technology. The costs for upfront license fees and reimbursements to UBC of patent costs were recorded in the financial statements as an intangible asset.

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

Related Parties

During the three months ended March 31, 2007, a total of 733,000 warrants at an exercise price of \$0.10 were exercised by directors for a total of \$73,300.

Pursuant to subscriptions to private placements of units (common shares and warrants) during the year ended December 31, 2006:

- a. directors or companies related to directors exercised 1,774,000 warrants for gross proceeds of \$213,425;
- b. officers exercised 366,000 warrants for gross proceeds of \$40,775; and
- c. a company having a significant share position in and influence over the Company exercised 6,666,000 warrants for gross proceeds of \$833,250.

For the three months ended March 31, 2006, the Company incurred consulting fees of \$45,000 for services provided by a company controlled by a director.

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

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 March 31, 2007, the Company had cash and cash equivalents of \$1,696,294 and working capital of \$1,672,521. This compares with cash and cash equivalents of \$2,063,784 and a working capital position of \$1,988,830 at December 31, 2006.

Cash used in operating activities was \$547,973 for the three months ended March 31, 2007 compared with \$337,925 for the comparative period in 2006. The increase in cash used in operations is due to the addition of development projects for NIRS-Compartment Syndrome and NIRS-Erectile Dysfunction. Because of the higher number of projects, the Company has incurred increased costs for prototype design and assembly, clinical trials and R&D headcount.

Cash used for investing activities was \$5,520 for the three months ended March 31, 2007 compared with \$2,200 for the comparative period in 2006.

Cash provided by the issuance of new shares during the three months ended March 31, 2007 was \$190,000 as compared to \$2,000 in 2006. New share issuances in 2007 represents proceeds primarily from the exercise of warrants priced at \$0.10 per warrant that were set to expire on March 11, 2007.

The Company 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. The Company has no material commitments.

Contractual Obligations

Premises and Office Equipment

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

2007	\$	60,107
2008		84,938
2009		81,342
2010		<u>70,781</u>
	\$	<u>297,168</u>

Subsequent Events

In April 2007, a total of 326,000 warrants at an exercise price of \$0.20 were exercised for total proceeds of \$65,200.

Risk Factors

An investment in our common shares involves a high degree of risk. You should carefully consider the specific factors described below, 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 below 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.

History of Losses - Urodynamix has been in a net loss position throughout its operating history. The Company's limited operating history makes it difficult to evaluate the future financial prospects of its business. There is no assurance that the Company will grow or be profitable or that the Company will have earnings or significant improvement in its cash flow from operations in the future. The future earnings on and cash flow from operations are dependent on the Company's ability to further develop and sell its products and the Company's operational expenses. Management expects to continue to have high levels of operating expenses, since it needs to make significant up-front expenditures for product development, manufacturing and corporate development activities. Management anticipates that the operating losses may continue until such time as it consistently generates sufficient revenues to support operations.

Need for Additional Financing - The implementation of the Company's business plan requires significant capital outlays and operating expenditures over the next several years. There can be no assurance that additional financing will be available when needed, on commercially reasonable terms, or at all. Any inability to obtain additional financing when needed would have a material adverse effect on the Company. Further, any additional equity financing may involve substantial dilution to the Company's then existing shareholders. Debt financing, if available, may involve onerous obligations, monetary or otherwise. If adequate funds are not available, the Company may obtain funds through arrangements with strategic partners or others who may require the Company to relinquish rights to certain technologies, any of which could adversely affect its business, financial condition and results of operations.

Uncertain Demand for Products - Demand for medical device products is dependent on a number of social, political and economic factors that are beyond the control of the Company. The healthcare industry is likely to continue to change as the public, government, medical practitioners, and the pharmaceutical industries focus on ways to expand medical coverage while controlling the growth in healthcare costs. While the Company believes that demand for medical devices will continue to grow, there is no assurance that such demand will exist or that the Companies products will be purchased to satisfy that demand.

In addition, we compete with numerous medical equipment companies for the portions of hospital budgets allocated to capital equipment. Sales of our NIRS Urodynamics System might be limited or delayed because of resistance to major capital equipment expenditures by hospital purchasing committees. Even if we are successful in convincing physicians, other medical professionals and hospital purchasing committees that the NIRS Urodynamics System provides valuable benefits, they might be unwilling or unable to commit funds to the purchase of the NIRS Urodynamics System due to budgetary constraints. Moreover, even if one or two units are sold to a hospital, we believe that it will take additional time and experience with the NIRS Urodynamics System before additional medical professionals in the hospital might be interested in using the NIRS Urodynamics System in other procedures or other areas of the hospital.

Sales of the NIRS Urodynamics System might be limited because medical professionals may be reluctant to use our NIRS Urodynamics System, unless they receive reimbursement from medical insurers for using the system. Our NIRS Urodynamics System is not currently cleared by the FDA for use. Additionally, the NIRS Urodynamics System is not currently approved for separate reimbursement, and we might not be able to obtain reimbursement for these uses of our NIRS Urodynamics System.

Dependence on Development of New Products - New technological or product developments in the medical devices industry may render the Company's products obsolete or reduce their value. The Company's future prospects are highly dependent on its ability to develop new products that address new technologies and achieve market acceptance. There can be no assurance that the Company will be successful in these efforts.

Competitors - We believe that the markets for urodynamics products may become highly competitive if the NIRS Urodynamics System becomes successful. We are unaware of any companies or individuals that are engaged in the research and development of non-invasive urodynamics. Competition might cause our sales cycle to lengthen to the extent that customers take longer to make purchasing decisions. Competition might also reduce our gross margins and market share and prevent us from achieving further market penetration. Competitors might be more successful than we are in obtaining FDA clearance with broader claims in their labeling or more successful than we are in manufacturing and marketing their products.

The medical products industry is characterized by extensive research and development and intense competition in an increasingly cost conscious environment. Some of these potential competitors have well-established reputations, customer relationships and marketing, distribution and service networks. Some of them have substantially longer histories in the medical products industry, larger product lines and greater financial, technical, manufacturing, research and development and management resources than we do. Many of these potential competitors have long-term product supply relationships with our potential customers. These potential competitors might be able to use their resources, reputations and ability to leverage existing customer relationships to give them a competitive advantage over us. They might also succeed in developing products that are at least as reliable and effective as our products, that make additional measurements, that are less costly than our products or that provide alternatives to our products.

Regulatory risk - Our products are classified as medical devices and are subject to extensive regulation in the United States by the FDA and other federal, state and local authorities. These regulations relate to manufacturing, labeling, sale, promotion, distribution, importing and exporting and shipping of our products. In the United States, before we can market a new medical device, or a new use of, or claim for, an existing product such as the NIRS Urodynamics System, we must first receive either 510(k) clearance or pre-market approval from the FDA, unless an exemption applies. Both of these processes can be expensive and lengthy. The FDA's 510(k) clearance process usually takes from three to year, but it can last longer. The process of obtaining pre-market approval is much more costly and uncertain than the 510(k) clearance process. It generally takes from one to three years, or even longer, from the time the pre-market approval application is submitted to the FDA until an approval is obtained. In order to obtain pre-market approval and, in some cases, a 510(k) clearance, a product sponsor must conduct well-controlled clinical trials designed to test the safety and effectiveness of the product. Conducting clinical trials generally entails a long, expensive and uncertain process that is subject to delays and failure at any stage. The data obtained from clinical trials may be inadequate to support approval or clearance of a submission. In addition, the occurrence of unexpected findings in connection with clinical trials may prevent or delay obtaining approval or clearance. If we conduct clinical trials, they may be delayed or halted, or be inadequate to support approval or clearance.

Medical devices may be marketed only for the indications for which they are approved or cleared. The FDA may fail to approve or clear indications that are necessary or desirable for successful commercialization. Indeed, the FDA may refuse our requests for 510(k) clearance or pre-market approval of new products, new intended uses or modifications to existing products. Our clearances can be revoked if safety or effectiveness problems develop.

Patent risk - Our success and ability to compete depends in part upon our ability to obtain protection in the United States and other countries for our products by establishing and maintaining intellectual property rights relating to or incorporated into our technology and products. We own or license a variety of patents and patent applications in the United States and corresponding patents and patent applications in certain foreign jurisdictions. Pending and future patent applications owned or licensed by us may not issue as patents or, if issued, may not issue in a form that will be commercially advantageous to us. Even if issued, patents may be challenged, narrowed, invalidated or circumvented, which could limit our ability to stop competitors from

marketing similar products or limit the length of term of patent protection we may have for our products. In addition, already issued patents owned or licensed by us may not be valid or enforceable. Further, even if valid and enforceable, these already issued patents may not be sufficiently broad to prevent others from marketing competitive products, despite our patent rights. Changes in either patent laws or in interpretations of patent laws in the United States and other countries may diminish the value of our intellectual property or narrow the scope of our patent protection.

The validity of our patent claims depends, in part, on whether prior art references disclosed or rendered obvious our inventions as of the filing date of our patent applications. We may not have identified all prior art, such as U.S. and foreign patents or published applications or published scientific literature, that could adversely affect the validity of our issued patents or the patentability of our pending patent applications. For example, patent applications in the United States are maintained in confidence for up to 18 months after their filing. In some cases, however, patent applications remain confidential in the U.S. Patent and Trademark Office for the entire time prior to issuance as a U.S. patent. Patent applications filed in countries outside the United States are also not typically published until at least 18 months from their first filing date. Similarly, publication of discoveries in the scientific or patent literature often lags behind actual discoveries.

We may initiate litigation to enforce our patent rights, which may prompt our adversaries in such litigation to challenge the validity, scope or enforceability of our patents. If a court decides that our patents are not valid, not enforceable or of a limited scope, we will not have the right to stop others from using our inventions.

The outcome of litigation to enforce our patent rights is subject to substantial uncertainties, especially in medical device-related patent cases that may, for example, turn on the interpretation of patent claim language by the court which may not be to our advantage, and also the testimony of experts as to technical facts upon which experts may reasonably disagree. Our involvement in such intellectual property litigation could result in significant expense.

We also cannot be certain that we were the first to invent, or the first to file patent applications relating to our NIRS Urodynamics technology. In the event that a third party has also filed a U.S. patent application covering our technology, we may have to participate in an adversarial proceeding known as an interference, which is declared by the U.S. Patent and Trademark Office to determine priority of invention in the United States. It is possible that we may be unsuccessful in the interference, resulting in a loss of some or all of our U.S. patent claims. We may also face similar proceedings outside the United States, including oppositions, to determine priority of invention or patentability. Even if we are successful in these proceedings, we may incur substantial costs, and the time and attention of our management and scientific personnel will be diverted in pursuit of these proceedings. Moreover, the laws of some foreign jurisdictions may not protect intellectual property rights to the same extent as in the United States, and many companies have encountered significant difficulties in protecting and defending such rights in foreign jurisdictions. If we encounter such difficulties or we are otherwise precluded from effectively protecting our intellectual property rights in foreign jurisdictions, we may incur substantial costs and our business prospects could be substantially harmed.

We rely on trade secret and copyright protection to protect our interests in proprietary information and know-how, and for processes for which patents are undesirable to obtain or are difficult to obtain or enforce. We may not be able to protect our trade secrets or copyrights adequately. For example, none of our copyrights have been registered with the U.S. Copyright Office, which limits our ability to sue for and collect damages from third party infringers. In addition, we rely on non-disclosure and confidentiality agreements with employees, consultants and other parties to protect, in part, trade secrets and other proprietary technology. These agreements may be breached, and we may not have adequate remedies for any breach. Moreover, others may independently develop equivalent proprietary information, and third parties may otherwise gain access to our trade secrets and proprietary knowledge. Any disclosure of confidential data into the public domain or to third parties could allow our competitors to learn our trade secrets and use the information in competition against us.

Patent infringement risk - If we are found to infringe or are alleged to infringe any third party intellectual property rights, then our business may be adversely affected.

There are numerous U.S. and foreign issued patents and pending patent applications owned by third parties with patent claims in the field of NIRS and areas that are the focus of our product development efforts. There may be other patents in addition to those of which we are aware that relate to aspects of our technology and that may materially and adversely affect our business. Moreover, because patent applications can take many years to issue, there may be currently pending applications, unknown to us, which may later result in issued patents that pose a material risk to us.

We may pose a threat to companies who own or control patents relating to NIRS and one or more third parties may file a lawsuit asserting a patent infringement claim against the manufacture, use or sale of the NIRS Urodynamics System based on one or more of these patents. We are not aware of any infringement of the claims of any issued patents by our products, and no charge of patent infringement has been asserted against us. However, potential competitors would have more incentive to assert infringement claims or challenge our patents if a more significant market for the NIRS Urodynamics System develops. Whether the manufacture, sale or use of the NIRS Urodynamics System, or whether any products under development would, upon commercialization, infringe any patent claim will not be known with certainty unless and until a court interprets the patent claim in the context of litigation. If an infringement allegation is made against us, we may seek to invalidate the asserted patent claim and/or to allege non-infringement of the asserted patent claim. In order for us to invalidate a U.S. patent claim, we would need to rebut the presumption of validity afforded to issued patents in the United States with clear and convincing evidence of invalidity, which is a high burden of proof.

The outcome of infringement litigation is subject to substantial uncertainties, especially in medical device-related patent cases that may, for example, turn on the interpretation of patent claim language by the court which may not be to our advantage, and also the testimony of experts as to technical facts upon which experts may reasonably disagree. Our defense of an infringement litigation lawsuit could result in significant expense. Regardless of the outcome, infringement litigation could significantly disrupt our marketing, development and commercialization efforts, divert our management's attention and quickly consume our financial resources.

In the event that we are found to infringe any valid claim in a patent held by a third party, we may, among other things, be required to:

- pay damages, including up to treble damages and the other party's attorneys' fees, which may be substantial;
- cease the development, manufacture, importation, use and sale of products that infringe the patent rights of others, including our NIRS Urodynamics System, through a court-imposed sanction called an injunction;
- expend significant resources to redesign our technology so that it does not infringe others' patent rights, or to develop or acquire non-infringing intellectual property, which may not be possible;
- obtain licenses to the infringed intellectual property, which may not be available to us on acceptable terms, or at all.

Any development or acquisition of non-infringing products or technology or licenses could require the expenditure of substantial time and other resources and could have a material adverse effect on our business and financial results. If we are required to, but cannot, obtain a license to valid patent rights held by a third party, we would likely be prevented from commercializing the relevant product, or from further manufacture, sale or use of the relevant product. If we need to redesign products to avoid third-party patents, we may suffer significant regulatory delays associated with conducting additional studies or submitting technical, manufacturing or other information related to the redesigned product and, ultimately, in obtaining approval.

While our products are in clinical trials, and prior to commercialization, we believe our activities related to the submission of data to the FDA fall within the scope of the exemptions that cover activities related to developing information for submission to the FDA and fall under general investigational use or similar laws in other countries. In any event, the fact that no third party has asserted a patent infringement claim against us to date should not be taken as an indication, or a level of comfort, that a patent infringement claim will not be asserted against us prior to or upon commercialization.

Key personnel - Our future performance depends in significant part on the continued service of our senior management, including Barry Allen, our President and Chief Executive Officer, and various scientific, technical and manufacturing personnel. Our loss of any of these key personnel could have an adverse effect on us. We do not maintain key-man life insurance on any of our key personnel. In addition, competition for qualified employees is intense, and if we are unable to attract, retain and motivate additional, highly-skilled employees required for the expansion of our operations, our business, financial condition and results of operations could be adversely affected. We cannot assure you that we will be able to retain our existing personnel or attract additional, qualified persons when required and on acceptable terms.

Summary of Quarterly Results

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

Quarter Ended 2007	March 31 \$	June 30 \$	September 30 \$	December 31 \$
Revenue	9,237	n/a	n/a	n/a
Loss	619,852	n/a	n/a	n/a
Loss per common share	(0.01)	n/a	n/a	n/a
Quarter Ended 2006	March 31 \$	June 30 \$	September 30 \$	December 31 \$
Revenue	432	4,628	6,726	379
Loss	366,957	383,771	380,618	765,898
Loss per common share	(0.01)	(0.01)	(0.01)	(0.01)
Quarter Ended 2005	March 31 \$	June 30 \$	September 30 \$	December 31 \$
Revenue	Nil	51,181	189	432
Loss	317,629	215,891	244,523	447,070
Loss per common share	(0.02)	(0.01)	(0.01)	(0.01)

CORPORATE DATA

MARCH 31, 2007

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

CAPITALIZATION

Authorized:	Unlimited
Issued:	67,086,487
Escrow:	130,000
Options:	6,309,000
Warrants:	15,053,905

SOLICITOR

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LISTING

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