

MDX Medical Inc.

Interim Consolidated Financial Statements

Three months ended March 31, 2005

[Unaudited – prepared by management]

MDX MEDICAL INC.

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

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

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

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

"Kevin Leong"

Kevin Leong
Chief Financial Officer

MDX Medical Inc.
Interim Consolidated Balance Sheets

[Unaudited – prepared by management]

	March 31 2005	December 31 2004
Assets		
Current		
Cash and equivalents	\$ 213,221	\$ 171,502
Receivables and prepaids	<u>47,743</u>	<u>48,377</u>
	260,964	219,879
Premises and equipment (Note 3)	50,821	57,505
Technology (Note 4)	<u>110,572</u>	<u>104,668</u>
	<u>\$ 422,357</u>	<u>\$ 382,052</u>
Liabilities		
Current		
Payables and accruals	\$ 238,463	\$ 183,627
Current portion of capital lease obligations (Note 6)	<u>8,503</u>	<u>9,825</u>
	246,966	193,452
Capital lease obligations (Note 6)	<u>4,812</u>	<u>6,307</u>
	<u>251,778</u>	<u>199,759</u>
Shareholders' Equity (Deficiency)		
Capital stock (Note 7)	7,457,350	7,279,705
Warrants (Note 7)	983,323	966,243
Unexercised stock options	175,671	184,208
Contributed Surplus (Note 7)	410,386	290,659
Deficit	<u>(8,856,151)</u>	<u>(8,538,522)</u>
	<u>170,579</u>	<u>182,293</u>
	<u>\$ 422,357</u>	<u>\$ 382,052</u>

Continuance of operations (Note 1)
 Commitments (Note 10)

On behalf of the Board

"Kenneth Phillippe"
 Director

"Kevin Leong"
 Director

See accompanying notes to the consolidated financial statements.

MDX Medical Inc.
Interim Consolidated Statements of Operations and Deficit
[Unaudited – prepared by management]

Three months ended March 31	2005	2004
<hr/>		
Expenses		
Research and development (Page 16)	\$ 92,092	\$ 222,010
General and administrative (Page 16)	155,591	349,882
Marketing	27,485	13,225
Depreciation and amortization	6,684	4,367
Interest	737	1,687
Stock-based compensation (Note 7)	35,040	-
	<hr/>	<hr/>
Total Expenses and Net loss	\$ 317,629	\$ 591,171
	<hr/>	<hr/>
Loss per share	\$ 0.02	\$ 0.06
	<hr/>	<hr/>
Weighted average number of common shares outstanding	17,064,198	10,638,317
	<hr/>	<hr/>
Deficit, beginning of period	\$ (8,538,522)	\$ (6,464,460)
Net loss	(317,629)	(591,171)
	<hr/>	<hr/>
Deficit, end of period	\$ (8,856,151)	\$ (7,055,631)
	<hr/>	<hr/>

See accompanying notes to the consolidated financial statements.

MDX Medical Inc.
Interim Consolidated Statements of Cash Flows
[Unaudited – prepared by management]

Three months ended March 31	2005	2004
Cash derived from (applied to)		
Operating		
Net loss	\$ (317,629)	\$ (591,171)
Depreciation and amortization	6,684	4,367
Stock-based compensation (Note 7)	35,040	-
Change in non-cash operating working capital		
Receivables and prepaids	634	(3,880)
Payables and accruals	54,836	(57,777)
	<u>(220,435)</u>	<u>(648,461)</u>
Financing		
Interest bearing advances	-	(45,234)
Shares and units issued for cash	283,650	1,000,000
Share issue costs	(12,775)	(119,104)
Repayment of capital lease obligations (Note 6)	(2,817)	(2,334)
	<u>268,058</u>	<u>833,328</u>
Investing		
Premises and equipment	-	(8,343)
Technology	(5,904)	(5,000)
	<u>(5,904)</u>	<u>(13,343)</u>
Net increase in cash	41,719	171,524
Cash and equivalents		
Beginning of year	<u>171,502</u>	<u>8,216</u>
End of period	<u>\$ 213,221</u>	<u>\$ 179,740</u>
Non-cash investing and financing transactions		
Share subscriptions	\$ -	\$ (2,500)
Supplemental cash flow information		
Interest paid	\$ 737	\$ 1,627

See accompanying notes to the consolidated financial statements.

MDX Medical Inc.

Notes to the Consolidated Financial Statements

March 31, 2005 and 2004

1. Operations and going concern

MDX Medical Inc. ("the Company") is focused on commercializing medical imaging systems for the diagnosis and treatment of cancer and other life-threatening diseases.

The Company's business strategy is to acquire promising imaging technologies that have reached the "proof of feasibility" or later stages of product development, complete the final stages of commercialization, obtain the required regulatory approvals and pursue strategic marketing partners.

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 can be available on favourable terms, if at all.

2. Summary of significant accounting policies

Basis of presentation

These consolidated financial statements are prepared in accordance with accounting principles generally accepted in Canada and include the accounts of the Company and its wholly owned subsidiary, Voyager Innovations Inc.

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.

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.

Premises and equipment

Equipment is recorded at cost less accumulated depreciation. Depreciation 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.

MDX Medical Inc.
Notes to the Consolidated Financial Statements
March 31, 2005 and 2004

2. Summary of significant accounting policies (Continued)

Technology

The costs incurred to acquire options and/or rights to medical technologies and also the costs to register patents on these technologies have been capitalized and will be amortized over the estimated useful lives of the technology commencing upon its commercial release.

Research costs are expensed as incurred. Development costs are expensed as incurred except when the costs associated with the process are clearly identifiable, the Company has indicated its intention to use the process and funding for continued development is available. In these circumstances, the costs are deferred and amortized on a systematic basis.

Management continuously assesses the recoverability of the Company's technology. When management believes that the Company will no longer pursue an option, patent or right, or if management concludes that it is recorded at an amount in excess of its net recoverable amount, the cost associated with the option, patent or right is written off or written down.

Stock option plan

All stock-based awards made to employees and non-employees are measured and recognized using the fair value based method. The Company adopted the fair value based method of accounting for awards issued to employees for the fiscal year beginning January 1, 2003 on a prospective basis. The change in accounting policy in 2003 did not result in any adjustment to the Company's opening deficit balance.

Government assistance

Any government assistance received by the Company is recorded as a reduction to the associated expense or equipment.

Share issue costs

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

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 not likely that the future benefit will not be realized.

MDX Medical Inc.
Notes to the Consolidated Financial Statements
 March 31, 2005 and 2004

2. Summary of significant accounting policies (Continued)

Financial instruments

The Company has various financial instruments including cash, receivables, payables and accruals, interest bearing advances and capital leases. It was not practicable to determine the fair value of the advances as there are no specified terms of repayment. The carrying value of all other financial instruments approximates their fair value.

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. Also 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 are not presented in fiscal 2004 and 2005 as the effect of outstanding options and warrants is anti-dilutive.

3. Premises and equipment

			<u>March 31</u> <u>2005</u>
	<u>Cost</u>	<u>Accumulated</u> <u>Depreciation</u>	<u>Net</u> <u>Book Value</u>
Office furniture and equipment	\$ 59,280	\$ 43,381	\$ 15,899
Computer equipment and software	40,537	25,473	15,064
Computer and laboratory equipment under capital lease	48,462	31,215	17,247
Leasehold improvements	<u>12,316</u>	<u>9,705</u>	<u>2,611</u>
	<u>\$ 160,595</u>	<u>\$ 109,774</u>	<u>\$ 50,821</u>
			<u>December 31</u> <u>2004</u>
	<u>Cost</u>	<u>Net</u> <u>Book Value</u>	<u>Net</u> <u>Book Value</u>
Office furniture and equipment	\$ 59,280	\$ 40,617	\$ 18,663
Computer equipment and software	40,537	24,253	16,284
Computer and laboratory equipment under capital lease	48,462	29,820	18,642
Leasehold improvements	<u>12,316</u>	<u>8,400</u>	<u>3,916</u>
	<u>\$ 160,595</u>	<u>\$ 103,090</u>	<u>\$ 57,505</u>

MDX Medical Inc.
Notes to the Consolidated Financial Statements
March 31, 2005 and 2004

4. Technology

The Company has capitalized the acquisition costs of its AVID System technology. The AVID System is an IMRT (Intensity Modulated Radiation Therapy) Dosimetry Verification System, which will assist medical physicists with the quality assurance function associated with verification of IMRT patient treatment plans. The Company has completed the development of the AVID System and plans to commercialize the technology in 2005.

5. Interest bearing advances

In respect of loans received in 2003, the Company issued 14,845 bonus share warrants to a director and unrelated parties on February 2, 2004. These warrants were exercisable for one common share of the Company at \$0.28 for a period of two years. The warrants have been recorded as a financing cost at an estimate of their fair value of \$2,600 on the date of their issuance (Note 7).

The fair value of these warrants has been estimated using the Black-Scholes option pricing model using the following assumptions: a risk-free interest rate of 2.60%, a dividend yield of 0%, an expected volatility of 129% and expected warrant life of two years.

6. Capital lease obligations

The Company leases computers and office equipment with minimum lease payments as follows:

2005	\$	8,288
2006		5,939
2007		<u>1,136</u>
		15,363
Less: interest at 20%		<u>2,048</u>
		13,315
Less: current portion		<u>8,503</u>
	\$	<u>4,812</u>

MDX Medical Inc.
Notes to the Consolidated Financial Statements
 March 31, 2005 and 2004

7. Capital stock

	<u>Common Shares</u>		<u>Warrants</u>	
	<u>Number</u>	<u>Amount</u>	<u>Number</u>	<u>Amount</u>
Authorized:				
50,000,000 common shares without par value				
Issued:				
Balance, December 31, 2003	8,269,818	\$ 5,751,741	5,232,437	\$ 401,385
(a) Issued for cash pursuant to a short form offering (net of costs of \$176,452)	3,333,334	583,448	1,666,667	150,100
Issued as agent's warrants	-	-	500,000	45,000
Issued as corporate finance fee	200,000	36,000	100,000	9,000
(b) Issued for cash pursuant to a private Placement (net of costs of \$30,259)	4,053,333	848,820	4,053,333	393,507
Issued as corporate finance fee	212,121	44,421	212,121	20,593
Issued on exercise of warrants	25,000	4,692	(25,000)	(942)
Issued on exercise of options	68,750	10,583	-	-
Issued as bonus for loans	-	-	14,845	2,600
Expiration of warrants	-	-	(128,000)	(55,000)
Balance, December 31, 2004	16,162,356	\$ 7,279,705	11,626,403	\$ 966,243
(c) Issued for cash pursuant to a private Placement (net of costs of \$12,775)	3,707,000	167,150	3,707,000	98,100
Issued on exercise of options	56,250	10,495	-	-
Expiration of warrants	-	-	(1,601,000)	(81,020)
Balance, March 31, 2005	<u>19,925,606</u>	<u>\$ 7,457,350</u>	<u>13,732,403</u>	<u>\$ 983,323</u>

- (a) On January 30, 2004 the Company completed a short form offering of 3,333,334 units at \$0.30 per unit. Each unit consisted of one common share and one-half non-transferable share purchase warrant. One whole warrant entitles the holder to acquire an additional common share at \$0.45 until July 29, 2005.

The agent in the short form offering received a 10% cash commission, a \$7,500 administration fee and a corporate finance fee of 200,000 units having the same terms as the units offered. The agent also received an agent's warrant to purchase 500,000 additional shares at \$0.30 per share.

- (b) On June 4, 2004 the Company issued 4,053,333 units at \$ 0.33 per unit pursuant to a private placement. Each unit consisted of one common share and one non-transferable share purchase warrant. One warrant is exercisable for an additional common share at an exercise price of \$0.45 in the first year and \$0.55 during the second year of the term.

A \$ 5,000 administration fee and 212,121 units representing a finder's fee were paid in connection with this private placement. The Company also incurred costs related to this private placement of \$25,259.

- (c) On March 11, 2005, the Company issued 3,707,000 units at \$ 0.075 per unit pursuant to a non-brokered private placement. Each unit consisted of one common share and one non-transferable share purchase warrant. One warrant is exercisable for an additional common share at an exercise price of \$0.10 for a period of two years from the date of closing.

MDX Medical Inc.
Notes to the Consolidated Financial Statements
 March 31, 2005 and 2004

7. Capital stock (Continued)

The proceeds from units issued have been allocated to the shares and warrants on the basis of their estimated relative fair values. The fair values of the shares and warrants issued have been estimated using the Black-Scholes option pricing model using the following assumptions:

	<u>2005</u>	<u>2004</u>
Risk-free rate of return	2.98%	2.60%
Dividend yield	Nil	Nil
Expected volatility	114%	129%
Expected warrant life	2 years	2 years

The costs of issuing units have been allocated entirely to the shares issued.

Shares held in escrow

At March 31, 2005, 167,500 (2004: 167,500) performance-based shares are held in escrow. These shares may be released from escrow on the approval of the TSX Venture Exchange. Of the shares held in escrow, 37,500 (2004: 37,500) may be cancelled by the Company at any time with the remainder being subject to cancellation on December 1, 2010 if not released from escrow before that date.

Stock options

The Company has adopted a stock option plan (the "Plan"), approved by the Company's stockholders on June 4, 2004, which reserves for issuance under the Plan options to purchase 3,176,297 common shares.

A summary of stock option activity during the period ended March 31, 2005 is as follows:

	<u>2005</u>
Outstanding, beginning of year	2,095,500
Granted	-
Exercised	(56,250)
Cancelled	<u>(493,625)</u>
Outstanding, end of period	<u>1,545,625</u>

MDX Medical Inc.
Notes to the Consolidated Financial Statements
 March 31, 2005 and 2004

7. Capital stock (Continued)

The following table summarizes stock options outstanding and exercisable at March 31, 2005:

<u>Number Outstanding</u>	<u>Average Remaining Contractual Life (In Years)</u>	<u>Weighted Average Exercise Price Per Share</u>
550,000	3.1	\$0.10
162,500	3.6	0.26
512,500	4.0	0.30
11,250	4.3	0.31
<u>309,375</u>	4.5	0.19
 <u>1,545,625</u>	 <u>3.7</u>	 <u>\$0.20</u>
<u>Number Exercisable</u>	<u>Average Remaining Contractual Life (In Years)</u>	<u>Weighted Average Exercise Price Per Share</u>
<u>848,750</u>	<u>3.6</u>	<u>\$0.19</u>

During the period ended March 31, 2005, the Company recorded \$35,040 (2004 - Nil) of compensation expense related to the vested stock options granted to employees and consultants. 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>2005</u>
Risk-free rate of return	3.85%
Dividend yield	Nil
Expected volatility	126%
Expected option life	5 years

MDX Medical Inc.
Notes to the Consolidated Financial Statements
 March 31, 2005 and 2004

7. Capital stock (Continued)

Warrants

A summary of share warrant activity is as follows:

	<u>2005</u>
Outstanding, beginning of year	11,626,403
Granted	3,707,000
Exercised	-
Expired	<u>(1,601,000)</u>
Outstanding, end of period	<u>13,732,403</u>

The following table summarizes information concerning warrants outstanding and exercisable at March 31, 2005:

Number Outstanding and <u>Exercisable</u>	Average Remaining Contractual Life <u>(In Years)</u>	Weighted Average Exercise Price <u>Per Share</u>
134,437	0.3	\$ 0.20
2,335,000	0.1	0.15
350,000	0.2	0.30
390,500	0.6	0.40
268,500	0.7	0.40
1,666,667	0.3	0.45
500,000	0.3	0.30
100,000	0.3	0.45
14,845	0.7	0.28
4,265,454	1.2	0.45
<u>3,707,000</u>	<u>1.9</u>	<u>0.10</u>
<u>13,732,403</u>	<u>1.0</u>	<u>\$0.29</u>

Contributed Surplus

Balance, December 31, 2003	\$ 199,880
Options cancelled	35,779
Expiration of warrants	<u>55,000</u>
Balance, December 31, 2004	290,659
Options cancelled	38,707
Expiration of warrants	<u>81,020</u>
Balance, March 31, 2005	<u>\$ 410,386</u>

MDX Medical Inc.
Notes to the Consolidated Financial Statements
 March 31, 2005 and 2004

8. 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.

	<u>March 31</u> <u>2005</u>	<u>December 31</u> <u>2004</u>
Loss before income taxes	\$ (317,629)	\$ (2,074,062)
Expected tax recovery at combined federal and provincial rates of 35.62% (2004: 35.62%)	\$ (113,139)	\$ (738,781)
Stock-based compensation	12,481	61,826
Financing fees	(5,173)	(22,004)
Other	1,378	7,406
Change in valuation allowance	<u>104,453</u>	<u>691,553</u>
Income tax provision	\$ <u>Nil</u>	\$ <u>Nil</u>

Future income tax assets consists of the following temporary differences:

	<u>March 31</u> <u>2005</u>	<u>December 31</u> <u>2004</u>
Loss carry forwards	\$ 1,444,000	\$ 1,354,000
Capital assets	233,000	233,000
Financing fees	72,000	72,000
Other	100,000	100,000
Valuation allowance	<u>(1,849,000)</u>	<u>(1,759,000)</u>
	\$ <u>Nil</u>	\$ <u>Nil</u>

The Company has operating losses totalling \$3,802,000 available to offset future taxable income. These operating losses expire as follows:

2006	\$ 110,000
2007	152,000
2008	317,000
2009	315,000
2010	931,000
2011	483,000
2014	1,451,000
2015	<u>293,000</u>
	\$ <u>4,052,000</u>

MDX Medical Inc.
Notes to the Consolidated Financial Statements
 March 31, 2005 and 2004

9. Related party transactions

In addition to interest bearing advances referred to in Note 5, the Company had the following transactions with related parties during the periods ended March 31, 2005 and 2004:

- (a) Incurred technological consulting fees of \$nil (2004 - \$855) for services provided by a former director. At March 31, 2005, Nil (2004: \$855) relating to such services is included in payables and accruals.
- (b) Incurred accounting fees of \$nil (2004: \$3,500) for services provided by a director. At March 31, 2005, \$nil (2004: \$nil) relating to such services is included in payables and accruals.
- (c) Incurred consulting fees of \$nil (2004 - \$22,500) related to administrative services due to a company controlled by a former officer and director. At March 31, 2005, \$nil (2004: \$3,576) relating to such services is included in payables and accruals.
- (d) Incurred corporate administrative fees of \$nil (2004: \$5,400) to a company controlled by a former officer. At March 31, 2005, \$nil (2004: \$13,163) relating to such services is included in payables and accruals.
- (e) Incurred consulting fees of \$28,800 (2004: \$5,000) for services provided by a company controlled by a director. At March 31, 2005, \$64,200 (2004: Nil) relating to such services is included in payables and accruals.

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

10. Commitments

The Company leases its premises and has entered into operating leases on office equipment for various periods until 2005. Minimum future rent payable for premises and equipment is as follows:

	<u>Premises Lease</u>				
	<u>Basic Rent</u>	<u>Deposit</u>	<u>Net</u>	<u>Equipment</u>	<u>Total</u>
2005	\$ <u>56,511</u>	<u>31,395</u>	<u>25,116</u>	<u>1,593</u>	\$ <u>26,709</u>

MDX Medical Inc.

Three months ended March 31, 2005 and 2004

Schedules of Research and Development Expenses

	<u>2005</u>	<u>2004</u>
Wages	\$ 75,879	\$ 123,126
Consulting	15,310	98,884
Other (recovery)	<u>903</u>	<u>-</u>
	<u>\$ 92,092</u>	<u>\$ 222,010</u>

Schedules of General and Administrative Expenses

	<u>2005</u>	<u>2004</u>
Wages	\$ 72,670	\$ 83,036
Consulting	31,384	28,480
Professional fees	6,885	52,312
Investor relations	7,500	109,575
Other	<u>37,152</u>	<u>76,479</u>
	<u>\$ 155,591</u>	<u>\$ 349,882</u>