

MDX Medical Inc.

Interim Consolidated Financial Statements

Three months ended March 31, 2006

[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 2006	December 31 2005
Assets		
Current		
Cash and equivalents	\$ 543,448	\$ 885,095
Receivables and prepaids	<u>30,250</u>	<u>24,054</u>
	573,698	909,149
Property and equipment (Note 3)	54,296	53,934
Intangible assets (Note 4)	<u>125,209</u>	<u>125,209</u>
	\$ <u>753,203</u>	\$ <u>1,088,292</u>
Liabilities		
Current		
Payables and accruals	\$ 60,954	\$ 88,718
Deferred revenue	2,544	2,976
Current portion of capital lease obligations (Note 5)	<u>12,217</u>	<u>11,092</u>
	75,715	102,786
Capital lease obligations (Note 5)	<u>15,706</u>	<u>13,742</u>
	<u>91,421</u>	<u>116,528</u>
Shareholders' Equity		
Capital stock (Note 6)	8,567,676	8,565,120
Warrants (Note 6)	1,016,674	1,017,230
Unexercised stock options	263,534	209,037
Contributed surplus (Note 6)	944,490	944,012
Deficit	<u>(10,130,592)</u>	<u>(9,763,635)</u>
	<u>661,782</u>	<u>971,764</u>
	\$ <u>753,203</u>	\$ <u>1,088,292</u>

Continuance of operations (Note 1)
Commitments (Note 9)

On behalf of the Board

"Paul Geyer"
Director

"James Heppell"
Director

See accompanying notes to the consolidated financial statements.

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

For the three months ended March 31

	<u>2006</u>	<u>2005</u>
Expenses		
Research & development (Page 17)	\$ 139,376	\$ 92,092
General & administrative (Page 17)	160,779	155,591
Marketing	5,513	27,485
Depreciation and amortization	4,995	6,684
Interest	1,319	737
Stock-based compensation (Note 6)	<u>54,975</u>	<u>35,040</u>
Total Expenses and Net loss	<u>\$ 366,957</u>	<u>\$ 317,629</u>
Loss per share	<u>\$ 0.01</u>	<u>\$ 0.02</u>
Weighted average number of common shares outstanding	<u>43,875,096</u>	<u>17,064,198</u>
Deficit, beginning of period	\$ 9,763,635	\$ 8,538,522
Net loss	<u>366,957</u>	<u>317,629</u>
Deficit, end of period	<u>\$ 10,130,592</u>	<u>\$ 8,856,151</u>

See accompanying notes to the consolidated financial statements.

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

For the three months ended March 31

	<u>2006</u>	<u>2005</u>
Cash and equivalents derived from (applied to)		
Operating		
Net loss	\$ (366,957)	\$ (317,629)
Depreciation and amortization	4,995	6,684
Stock-based compensation (Note 6)	54,975	35,040
Changes in non-cash operating working capital		
Receivables and prepaids	(6,196)	634
Payables and accruals	(27,764)	54,836
Deferred revenue	(432)	-
	<u>(341,379)</u>	<u>(220,435)</u>
Financing		
Shares and units issued for cash, net of financing fees	2,000	270,875
Net advance or repayment of capital lease obligations (Note 5)	3,089	(2,817)
	<u>5,089</u>	<u>268,058</u>
Investing		
Property and equipment	(5,357)	-
Intangible assets	-	(5,904)
	<u>(5,357)</u>	<u>(5,904)</u>
Net (decrease) increase in cash and equivalents	(341,367)	41,719
Cash and equivalents		
Beginning of period	<u>885,095</u>	<u>171,502</u>
End of period	<u>\$ 543,448</u>	<u>\$ 213,221</u>

See accompanying notes to the consolidated financial statements.

MDX Medical Inc.

Notes to the Interim Consolidated Financial Statements

March 31, 2006 and 2005

1. Operations and going concern

The operations of MDX Medical Inc. ("the Company") are 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 will 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 Canadian generally accepted accounting principles, and include the accounts of the Company and its wholly owned inactive subsidiary, Voyager Innovations Inc., up to December 16, 2005, the date of legal dissolution of Voyager Innovations Inc.

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.

Property 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%

MDX Medical Inc.
Notes to the Interim Consolidated Financial Statements
March 31, 2006 and 2005

2. Summary of significant accounting policies (continued)

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.

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 product 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 value and the fair value of the impaired assets and is presented as an impairment loss in the current period.

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. 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.

Government assistance

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

MDX Medical Inc.
Notes to the Interim Consolidated Financial Statements
March 31, 2006 and 2005

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.

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 not likely that the future benefit will be realized.

Financial instruments

The Company holds various financial instruments including cash, receivables, payables and accruals, and capital lease obligations. The carrying value of financial instruments approximates fair value, unless otherwise noted.

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 reasonably assured and the fee is fixed and determinable. The Company relies on contracts and purchase orders as evidence of an arrangement. Delivery is completed when a master copy of the software is shipped to or downloaded by the customer. Management assesses collection based on a number of factors, including past transaction history with the customer and the credit-worthiness of the customer. The Company generally does not request collateral from customers. If the Company determines that collection of a sale is not reasonably assured, it defers the sale and recognizes revenue at the time collection becomes reasonably assured. The Company assesses whether the fee is fixed and determinable at the outset of the arrangement based on the payment terms associated with the transaction.

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).

The Company's software products are generally fully functional upon delivery and implementation and do not require significant short-term subsequent modifications or alterations.

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 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 Company's 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 reasonably assured

MDX Medical Inc.
Notes to the Interim Consolidated Financial Statements
 March 31, 2006 and 2005

2. Summary of significant accounting policies (continued)

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 for the 2006 and 2005 years as the effect of outstanding options and warrants is anti-dilutive.

3. Property and equipment

		<u>March 31 2006</u>	
	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
Office furniture and equipment	\$ 30,492	\$ 18,622	\$ 11,870
Computer software	30,447	26,152	4,295
Computer and laboratory equipment	<u>122,776</u>	<u>84,645</u>	<u>38,131</u>
	<u>\$ 183,715</u>	<u>\$ 129,419</u>	<u>\$ 54,296</u>

		<u>December 31 2005</u>	
	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
Office furniture and equipment	\$ 30,492	\$ 17,932	\$ 12,560
Computer software	30,447	24,721	5,726
Computer and laboratory equipment	<u>117,419</u>	<u>81,771</u>	<u>35,648</u>
	<u>\$ 178,358</u>	<u>\$ 124,424</u>	<u>\$ 53,934</u>

4. Intangible assets

The Company entered into a licensing agreement with UBC, dated May 30, 2005 and subsequently amended, in respect to the "NIRS" technology. 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 NIRS (Near InfraRed Spectrophotometry) technology is a non-invasive diagnostic medical device that is to be used for the diagnosis and assessment of bladder disease. 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 common shares of the Company (Note 6), a royalty 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, reimbursement of patent costs incurred by UBC, 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 incurred patent reimbursement costs of \$25,209 during the 2005 year.

MDX Medical Inc.
Notes to the Interim Consolidated Financial Statements
 March 31, 2006 and 2005

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. No definite life can yet be assigned to the intangible asset.

5. Capital lease obligations

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

2007	\$	16,379
2008		12,384
2009		5,689
		<u>34,452</u>
Less: interest at 19%		<u>6,529</u>
		27,923
Less: current portion		<u>12,217</u>
	\$	<u>15,706</u>

6. Capital stock

	<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, 2004	16,162,356	\$ 7,279,705	11,626,403	\$ 966,243
(a) Issued for cash pursuant to a private placement (net of costs of \$12,947)	3,707,000	166,978	3,707,000	98,100
(b) Issued for cash pursuant to a private placement (net of costs of \$209,987)	23,000,000	1,035,179	23,000,000	479,834
Issued as agent's warrants	-	-	1,291,000	26,933
Issued as corporate finance fee	107,000	5,668	107,000	2,233
Issued as partial consideration for initial license fee (Note 4)	714,286	50,000	-	-
Issued on exercise of warrants	150,000	18,970	(150,000)	(3,970)
Issued on exercise of options	56,250	10,495	-	-
Cancellation of escrow shares	(37,500)	(1,875)	-	-
Expiration of warrants	-	-	(7,360,949)	(552,143)
Balance, December 31, 2005	43,859,392	\$ 8,565,120	32,220,454	\$ 1,017,230
Issued on exercise of warrants	26,667	2,556	(26,667)	(556)
Balance, March 31, 2006	<u>43,886,059</u>	<u>\$ 8,567,676</u>	<u>32,193,787</u>	<u>\$ 1,016,674</u>

- (a) On March 10, 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 Interim Consolidated Financial Statements
March 31, 2006 and 2005

6. Capital stock (continued)

- (b) On August 12, 2005, the Company issued 23,000,000 units at \$ 0.075 per unit pursuant to a 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 \$0.125 per share in the first year and \$0.20 per share in the second year. The Company may give notice that the exercise period of the warrants will be reduced to 30 days if (i) any time during the first year, excluding the hold period, the Company's daily weighted average trading price exceeds \$0.20 per share for 20 consecutive trading days and the average daily volume of trading exceeds 150,000 shares during that 20 day period; or (ii) any time during the second year the Company's daily weighted average trading price exceeds \$0.30 per share for 20 consecutive trading days and the average daily volume exceeds 100,000 shares during that 20 day period.

The agents for the placement received an 8% cash commission on the gross proceeds of the offering (rate reduced for certain purchasers). The agents also received a \$15,000 corporate finance fee, one-half of which was paid through the issuance of 107,000 units. In addition, the agents were issued 1,291,000 agents' warrants entitling the holder to purchase one common share of the Company at a price of \$0.075 per share during the first year and \$0.08625 per share during the second year.

The proceeds from units issued have been allocated to shares and warrants on the basis of 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>2006</u>
Risk-free rate of return	3.09%
Dividend yield	Nil
Expected volatility	115%
Expected warrant life	2 years

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

Shares held in escrow

At March 31, 2006, 130,000 (2005 - 167,500) 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.

MDX Medical Inc.
Notes to the Interim Consolidated Financial Statements
 March 31, 2006 and 2005

6. Capital stock (continued)

Stock options

The Company adopted a stock option plan (the "Plan"), approved by the Company's stockholders on June 10, 2005, which reserves for issuance under the Plan options to purchase 3,985,121 common shares.

A summary of stock option activity follows:

	<u>Number</u>	Weighted Average Exercise Price Per Share
Outstanding, December 31, 2004	2,095,500	\$ 0.19
Granted	1,790,000	0.12
Exercised	(56,250)	0.10
Cancelled	<u>(889,250)</u>	<u>0.19</u>
Outstanding, December 31, 2005	2,940,000	0.15
Granted	500,000	0.16
Exercised	-	-
Cancelled	<u>(30,000)</u>	<u>0.12</u>
Outstanding, March 31, 2006	<u>3,410,000</u>	<u>\$ 0.15</u>

The following table summarizes stock options outstanding and exercisable at March 31, 2006:

<u>Number Outstanding</u>	<u>Average Remaining Contractual Life (In Years)</u>	<u>Weighted Average Exercise Price Per Share</u>
500,000	2.1	\$0.10
100,000	2.6	0.26
350,000	3.0	0.30
200,000	3.5	0.19
1,760,000	4.5	0.12
<u>500,000</u>	<u>4.9</u>	<u>0.16</u>
<u>3,410,000</u>	<u>3.6</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>1,686,667</u>	<u>3.3</u>	<u>\$0.17</u>

MDX Medical Inc.
Notes to the Interim Consolidated Financial Statements
 March 31, 2006 and 2005

6. Capital stock (continued)

Stock options (continued)

During the three months ended March 31, 2006, the Company recorded \$54,975 (2005 – \$35,040) 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>2006</u>	<u>2005</u>
Risk-free rate of return	4.18%	3.62%
Dividend yield	Nil	Nil
Expected volatility	117%	116%
Expected option life	5 years	5 years

The weighted average fair value of options granted during 2006 was \$0.14.

Warrants

A summary of share warrant activity follows:

Outstanding, December 31, 2004	11,626,403
Issued	28,105,000
Exercised	(150,000)
Expired	<u>(7,360,949)</u>
Outstanding, December 31, 2005	32,220,454
Issued	-
Exercised	(26,667)
Expired	<u>-</u>
Outstanding, March 31, 2006	<u>32,193,787</u>

The following table summarizes information concerning warrants outstanding and exercisable at March 31, 2006:

Number Outstanding and <u>Exercisable</u>	Average Remaining Contractual Life <u>(In Years)</u>	Weighted Average Exercise Price Per Share
4,265,454	0.2	0.55
3,557,000	0.9	0.10
23,107,000	1.4	0.13
<u>1,264,333</u>	<u>1.4</u>	<u>0.08</u>
<u>32,193,787</u>	<u>1.2</u>	<u>\$0.18</u>

MDX Medical Inc.
Notes to the Interim Consolidated Financial Statements
 March 31, 2006 and 2005

6. Capital stock (continued)

Contributed surplus

Balance, December 31, 2004	\$	290,659
Options cancelled		99,335
Escrow shares cancelled		1,875
Expiration of warrants		552,143
		<hr/>
Balance, December 31, 2005		944,012
Options cancelled		478
		<hr/>
Balance, March 31, 2006	\$	<u>944,490</u>

7. 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>2006</u>	<u>2005</u>
Loss before income taxes	\$ <u>(366,957)</u>	\$ <u>(317,629)</u>
Expected tax recovery at combined federal and provincial rates of 34.90% (2005: 35.62%)	\$ (128,068)	\$ (113,139)
Stock-based compensation	19,186	12,481
Financing fees	-	(5,173)
Other	37,173	1,378
Change in valuation allowance	<u>71,709</u>	<u>104,453</u>
Income tax provision	\$ <u>Nil</u>	\$ <u>Nil</u>

Future income tax assets consist of the following temporary differences:

	<u>2006</u>	<u>2005</u>
Loss carry forwards	\$ 1,760,000	\$ 1,444,000
Capital assets	312,000	233,000
Financing fees	118,000	72,000
Other	51,000	100,000
Valuation allowance	<u>(2,241,000)</u>	<u>(1,849,000)</u>
	\$ <u>Nil</u>	\$ <u>Nil</u>

MDX Medical Inc.
Notes to the Interim Consolidated Financial Statements
 March 31, 2006 and 2005

7. Income taxes (continued)

The Company has operating losses totalling approximately \$5,043,000 available to offset future taxable income. These operating losses expire as follows:

2007	\$	152,000
2008		317,000
2009		315,000
2010		931,000
2014		1,944,000
2015		1,074,000
2016		<u>310,000</u>
	\$	<u>5,043,000</u>

8. Related party transactions

The Company incurred consulting fees of \$45,000 (2005: \$28,800) for services provided by a company controlled by a director (Barry Allen). The transactions were recorded at the exchange amount, which is the amount established and agreed to between the related parties.

9. 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:

2006	\$	70,338
2007		77,530
2008		81,126
2009		77,530
2010		<u>67,605</u>
		<u>\$ 374,129</u>

10. Statement of cash flows – supplementary information

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

	2006	2005
Cash paid for income taxes	\$ —	\$ —
Cash paid for interest	\$ 1,319	\$ 737

(b) Significant non-cash transactions occurring during the 2006 and 2005 years were as follows:

- (i) During the 2006 year, the Company issued options to an officer to acquire 500,000 common shares of the Company, as described in Note 6. The estimated fair value of the options, totalling \$70,500 will be recognized over the vesting period. Of the total, \$11,718 was charged to operations for the 2006 year.

During the 2005 year, the Company issued options to directors, officers and employees to acquire 1,790,000 common shares of the Company, as described in Note 6. The estimated fair value of the options, totalling \$192,913 will be recognized over the vesting period.

MDX Medical Inc.
Notes to the Interim Consolidated Financial Statements
March 31, 2006 and 2005

10. Statement of cash flows – supplementary information (continued)

- (ii) During the 2005 year, 714,286 shares were issued at a deemed price of \$0.07 per share to UBC as partial consideration (\$50,000) for the initial license fee as described in Notes 4 and 6.
- (iii) During the 2005 year, the Company issued 107,000 units of the private placement described in Note 6 to the agents as consideration for one half of the corporate finance fee of \$8,025. In addition, the agents were issued 1,291,000 agents' warrants as described in Note 6. The estimated fair value of these warrants of \$26,933 has been reported in the shareholder's equity balance.
- (iv) During the three months ending March 31, 2006, the Company acquired property and equipment at a cost of \$6,619 for which it assumed obligations under capital leases.
During the 2005 year, the Company acquired property and equipment at a cost of \$20,893 for which it assumed obligations under capital leases.

11. Comparative figures

Certain of the comparative figures for the 2005 year have been reclassified to conform to the presentation adopted for the 2006 year.

MDX Medical Inc.

Three months ended March 31, 2006 and 2005

Schedule of Research and Development Expenses

	<u>2006</u>		<u>2005</u>
Wages	\$ 90,576	\$	75,879
Consulting (Note 8)	3,807		15,310
Other	<u>44,993</u>		<u>903</u>
	<u>\$ 139,376</u>	\$	<u>92,092</u>

Schedule of General and Administrative Expenses

	<u>2006</u>		<u>2005</u>
Wages	\$ 56,372	\$	72,670
Consulting (Notes 8)	45,000		31,384
Professional fees	7,386		6,885
Investor relations	8,336		7,500
Rent	17,034		18,837
Other (Note 8)	<u>26,651</u>		<u>18,315</u>
	<u>\$ 160,779</u>	\$	<u>155,591</u>

MDX MEDICAL INC.

Management's Discussion and Analysis of Financial Condition and Results of Operations for the Three months ended December 31, 2005

March 31, 2006

The following discussion and analysis should be read in conjunction with the audited financial statements and notes for the three months ended March 31, 2006 accompanying this report. All financial information is prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP") and is expressed in Canadian dollars. Additional information relating to the Company can be found on the SEDAR website at www.sedar.com

Forward-Looking Statements

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

Overview

MDX Medical Inc. is a medical technology company located in Vancouver, British Columbia and listed on the TSX Venture Exchange (symbol: MDX). MDX Medical Inc.'s focus is on the commercialization of novel, innovative and leading edge medical device technologies for improved diagnosis and treatment of prominent health disorders. The Company's business strategy is to acquire and commercialize high potential technologies that have reached the "proof of feasibility" or later stages of product development.

The Company currently has two technologies in its portfolio at different stages of commercialization.

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 Vancouver General Hospital. The technology currently in development, 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 MDX Medical 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 the worldwide direct and indirect costs of UI exceeds \$16 billion annually, and 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.

Pressure urodynamics is the current standard of care for diagnosing various bladder diseases. It is a highly invasive procedure which involves simultaneous urethral and rectal catheterization and direct observation of voiding. As a result, the data is compromised by the unnatural setting and urethral catheter interfering with voiding. The direct costs are significant since a technician trained in safe catheterization is required in addition to the urologist.

By comparison MDX's licensed technology, NIRS urodynamics, is a non-invasive device integrating an external control unit and optical sensor that is placed on the abdomen over the site of the bladder. The painless exam uses energy from light (NIRS) to gather data about bladder health and function. The Company believes that NIRS urodynamics will deliver the same critical data currently measured with the dual catheter procedure. NIRS works by emitting near-infrared light into the tissue, and recording the light received at a detector optode fixed to the skin. Different constituents of tissue, such as oxygen-carrying blood cells, absorb light differently, accordingly the difference can be measured and analyzed to monitor changes in oxygen levels and blood supply which can be analyzed to derive urodynamics.

MDX management believes the NIRS Urodynamics device will be a straightforward, low-cost and non-invasive diagnostic device. If the NIRS Urodynamics device achieves widespread adoption, sales potential could be very significant for several reasons:

- the availability of a non-invasive diagnostic device should significantly decrease the number of patients (up to 60%) who decline invasive urodynamics workup 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;
- UI can be treated successfully in over 80% of cases, if properly diagnosed.
- bladder conditions are generally age-related, thus the aging "baby-boom" will increase the population group likely to encounter bladder issues;
- NIRS urodynamics 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 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. 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. As research progresses, the Company intends to file additional patent applications to further strengthen the NIRS Urodynamics patent portfolio.

MDX management estimates a period of two years for the various steps necessary prior to commercialization such as completion of product design, clinical trials and FDA approval.

AVID System

The AVID (Advanced Verification of Integral Dose) Dosimetry Verification System ("AVID System"), which is used by medical physicists in the quality assurance and verification of patient treatment plans for IMRT (Intensity Modulated Radiation Therapy), completed development in early 2005 with commercialization efforts commencing soon thereafter. 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.

The AVID System consists of two components: the AVID Phantom and the AVID Image Analysis Software. The AVID Phantom is a medical device constructed of special "tissue-equivalent" materials that mimic the radiation absorption and scattering properties of human tissues. The AVID Phantom will be used to serve as a "proxy" for a patient by recording the proposed radiation treatment plan prior to treating a patient with IMRT. The phantom contains an array of films or other radiation detection devices that can record detailed information on the radiation dose and distribution delivered by the proposed IMRT treatment plan. The information from the films or other radiation detectors, as well as information from the IMRT treatment planning software, is then transferred to the AVID Image Analysis Software. Medical physicists analyze this information to determine if the actual radiation delivered matches the proposed patient treatment plan.

In early 2006, the Company discontinued direct sales of the product, and is in the process of negotiating a sale or licensing of its rights to the AVID technology. The outcome of the negotiations is uncertain and the Company may be unable to recover the cost of its investment. Thus, the remaining carrying cost of the AVID System at December 31, 2005 was written off, and an impairment loss of \$82,958 charged against operations for the 2005 year.

To the extent possible, management endeavors to implement strategies aimed at reducing or mitigating the risks and uncertainties associated with the Company's business. Operating risks include (i) market acceptance of the Company's technology and products, (ii) the Company's ability to obtain and enforce timely patent protection of its technology and products, (iii) the Company's ability to manufacture its products cost effectively; (iv) the competitive environment and impact of technological change, and (v) the continued availability of capital to finance the Company's activities.

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 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.

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 reasonably assured and the fee is fixed and determinable. The Company relies on contracts and purchase orders as evidence of an arrangement. Delivery is completed when a master copy of the software is shipped to or downloaded by the customer. Management assesses collection based on a number of factors, including past transaction history with the customer and the credit-worthiness of the customer. The Company generally does not request collateral from customers. If the Company determines that collection of a sale is not reasonably assured, it defers the sale and recognizes revenue at the time collection becomes reasonably assured. The Company assesses whether the fee is fixed and determinable at the outset of the arrangement based on the payment terms associated with the transaction.

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).

The Company's software products are fully functional upon delivery and implementation and do not require significant modification or alteration.

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 Company's consolidated balance sheet.

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

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.

Technology

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 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. Intangible assets subject to amortization are reviewed for impairment in accordance with the provisions applying to long-lived assets.

Product development costs include costs of materials and service contracts incurred by the Company which are directly attributable to the development of the NIRS and AVID technologies. 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 and financial feasibility is established.

To the extent that estimated future cash flows from product 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 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 value and the fair value of the impaired assets and is presented as an impairment loss in the current period.

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 capital amount.

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 not likely that the future benefit will not be realized.

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 2003 and 2004 as the effect of outstanding options and warrants is anti-dilutive.

Outstanding Share Data

The authorized share capital of MDX Medical Inc. is unlimited. At March 31, 2006 there were 43,886,059 shares outstanding (December 31, 2005: 43,859,392). There are 32,193,787 common shares reserved for issuance upon the exercise of common share purchase warrants (December 31, 2005: 32,220,454) and 3,410,000 common shares reserved for issuance upon the exercise of stock options currently outstanding under the Stock Option Plan (December 31, 2005: 2,940,000). Also at March 31, 2006, 130,000 (December 31, 2005: 130,000) performance shares are held in escrow. These shares may be released from escrow on the approval of 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 consolidated net loss for the three months ended March 31, 2006, was \$366,957 or \$0.01 per share as compared with a net loss of \$317,629 or \$0.02 per share for the comparative period in 2005.

R&D Expenses

R&D Expenses were \$139,376 for the three months ended March 31, 2006, compared with \$92,092 for the comparative period in 2005. In the first quarter of 2006, MDX is actively developing the NIRS Urodynamics and has incurred costs for prototype design, clinical trials and R&D headcount. For the comparative period in 2005, MDX had largely completed R&D activity on the AVID technology and began to focus on efforts to market the technology. As such, there was less R&D headcount and minimal consulting fees for engineering design and technical expertise.

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

	<u>March 31</u> <u>2006</u>	<u>March 31</u> <u>2005</u>
Wages	\$ 90,576	\$ 75,879

Consulting and Prototyping	3,807	15,310
Other	44,993	903
	<u>139,376</u>	<u>92,092</u>
	\$	\$

General and Corporate Administrative Expenses

General and Administrative Expenses were \$160,779 for the three months ended March 31, 2006, compared with \$155,591 for the comparative period in 2005. During the first quarter of 2006, MDX added a Vice-President of Communications with the responsibility of increasing public and investor awareness of MDX's technology and opportunities.

Amounts by major sub-category are as follows:

	<u>March 31</u> <u>2006</u>	<u>March 31</u> <u>2005</u>
Wages	\$ 56,372	\$ 72,670
Consulting	45,000	31,384
Investor Relations	7,386	7,500
Professional fees	8,336	6,885
Rent	17,034	18,837
Other	26,651	18,315
	<u>160,779</u>	<u>155,591</u>
	\$	\$

Marketing Expenses

Marketing expense was \$5,513 for the three months ended March 31, 2006 compared with \$27,485 for the comparative period in 2005. In early 2006, the Company discontinued direct sales of the product, and is in the process of negotiating a sale or licensing of its rights to the AVID technology. In the comparative period of 2005, the expenditures reflected expenses in advance of the 2005 second quarter launch of the AVID Software marketing campaign. The campaign included costs for consultants, marketing design and production of materials, and customer research.

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, 2006, total amortization expense was \$4,995 compared with \$6,684 for the comparative period in 2005.

Related Parties

For the three months ended March 31, 2006, the Company incurred consulting fees of \$45,000 (2005: \$28,800) for services provided by a company controlled by a director (Barry Allen). 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, MDX Medical Inc. 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, 2005, the Company had cash and cash equivalents of \$543,448 and working capital of \$510,200. This compares with cash and cash equivalents of \$885,095 and a working capital position of \$806,363 at December 31, 2005.

Cash used in operating activities was \$341,379 for the three months ended March 31, 2006 compared with \$220,435 for the comparative period in 2004. The increase in cash used in operations is due to heightened R&D development tasks surrounding the Company's NIRS Urodynamics technology. Such tasks include clinical trials, engineering design, and prototype manufacturing.

Cash used for investing activities was \$5,357 for the three months ended March 31, 2006 compared with \$5,904 for the comparative period in 2005. These expenditures were for office and lab equipment to be used in the development of the NIRS Urodynamics technology.

Cash provided by the issuance of new shares during the three months ended March 31, 2006 was \$2,000 as compared to \$270,785 in 2005. The share issuance in the first quarter of 2005 represents net proceeds primarily from a private placement completed on March 11, 2005. Other financing activities related to capital lease transactions. During the three months ended March 31, 2006, MDX received net capital lease financing of \$3,089 compared with net capital lease payments of \$2,817 for the comparative period in 2005.

The Company believes that cash flows from operations and funds on hand will be insufficient to fund its cash requirements through 2006. 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:

2006	70,338
2007	77,530
2008	81,126
2009	77,530
2010	67,605
	<hr/>
	\$ 374,129

Financing Risks

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

Need for Additional Financing - The implementation of the Issuer'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 to the Issuer 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 Issuer. Further, any additional equity financing may involve substantial dilution to the Issuer's then existing shareholders. Debt financing, if available, may involve onerous obligations, monetary or otherwise. If adequate funds are not available, the Issuer may obtain funds through arrangements with strategic partners or others who may require the Issuer to relinquish rights to certain technologies, any of which could adversely affect its business, financial condition and results of operations.

Product Risks

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 Issuer. 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 Issuer 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.

Dependence on Development of New Products - New technological or product developments in the medical devices industry may render the Issuer's products obsolete or reduce their value. The Issuer'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 Issuer will be successful in these efforts.

Summary of Quarterly Results

The following table sets out selected consolidated quarterly information for the three months ended March 31, 2006 and the previous eight quarters of 2005 and 2004:

Quarter Ended 2006	March 31	June 30	September 30	December 31
	\$	\$	\$	\$
Revenue	Nil	n/a	n/a	n/a
Loss	366,957	n/a	n/a	n/a
Loss per common share	(0.01)	n/a	n/a	n/a
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)
Quarter Ended 2004	March 31	June 30	September 30	December 31
	\$	\$	\$	\$
Revenue	Nil	Nil	Nil	Nil
Loss	591,171	529,081	558,761	395,049
Loss per common share	(0.06)	(0.05)	(0.03)	(0.02)



MDX MEDICAL INC.

CORPORATE DATA

MARCH 31, 2006

HEAD OFFICE

Suite 1351 – 409 Granville Street
Vancouver, BC V6C 1T2
Tel: (604) 694-7770
Fax: (604) 694-7771
Email: info@mdxmedical.com
Website: www.mdxmedical.com

REGISTRAR & TRANSFER AGENT

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

DIRECTORS AND OFFICERS

	Chairman & Chief Executive Officer
Barry J. Allen	Chief Financial Officer, Corporate Secretary
Kevin Leong	Director
K. Alan Blair	Director
Paul Geyer	Director
James Heppell	

CAPITALIZATION

Authorized:	Unlimited
Issued:	43,886,059
Escrow:	130,000
Options:	3,410,000
Warrants:	32,193,787

SOLICITOR

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

AUDITORS

Berris Mangan
1827 West 5th Avenue
Vancouver, BC V6J 1P5

INVESTOR CONTACT

Mr. Stewart Reid
VP Marketing & Communications
MDX Medical Inc.
Tel: (604) 638-0247
Email: stewartmreid@mdxmedical.com

LISTINGS

TSX Venture Exchange
Trading Symbol: MDX.V
CUSIP #: 552692