



Interim Consolidated Financial Statements
Six months ended June 30, 2006
[Unaudited - prepared by management]

URODYNAMIX TECHNOLOGIES LTD.

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

Urodynamix Technologies Ltd.
Interim Consolidated Balance Sheets

[Unaudited – prepared by management]

	June 30 2006	December 31 2005
Assets		
Current		
Cash and equivalents	\$ 289,423	\$ 885,095
Receivables	117,763	9,832
Prepays	<u>7,397</u>	<u>14,222</u>
	414,583	909,149
Property and equipment (Note 3)	49,301	53,934
Intangible assets (Note 4)	<u>151,586</u>	<u>125,209</u>
	<u>\$ 615,470</u>	<u>\$ 1,088,292</u>
Liabilities		
Current		
Payables and accruals	\$ 103,382	\$ 88,718
Deferred revenue	123,782	2,976
Current portion of capital lease obligations (Note 5)	<u>11,499</u>	<u>11,092</u>
	238,663	102,786
Capital lease obligations (Note 5)	<u>12,985</u>	<u>13,742</u>
	<u>251,648</u>	<u>116,528</u>
Shareholders' Equity		
Capital stock (Note 7)	8,633,209	8,565,120
Warrants (Note 7)	593,916	1,017,230
Unexercised stock options	277,970	209,037
Contributed surplus (Note 7)	1,373,090	944,012
Deficit	<u>(10,514,363)</u>	<u>(9,763,635)</u>
	<u>363,822</u>	<u>971,764</u>
	<u>\$ 615,470</u>	<u>\$ 1,088,292</u>

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

On behalf of the Board

"Paul Geyer"
 Director

"James Heppell"
 Director

See accompanying notes to the consolidated financial statements.

Urodynamix Technologies Ltd.
Interim Consolidated Statements of Operations and Deficit
[Unaudited – prepared by management]

	For the six months ended June 30		For the fiscal quarter ended June 30	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Revenue	\$ 5,060	\$ 54,905	\$ 4,628	\$ 54,905
Expenses				
Cost of sales	-	3,724	-	3,724
Research & development (page 17)	277,521	116,740	137,713	24,648
General & administrative (page 17)	363,008	331,396	202,229	175,805
Marketing	5,513	51,344	-	23,859
Depreciation and amortization	9,990	22,587	4,995	15,903
Interest	2,595	1,339	1,276	602
Stock-based compensation (Note 7)	97,161	61,295	42,186	26,255
Total expenses	<u>755,788</u>	<u>588,425</u>	<u>388,399</u>	<u>270,796</u>
Net loss	\$ <u>750,728</u>	\$ <u>533,520</u>	\$ <u>383,771</u>	\$ <u>215,891</u>
Loss per share	\$ <u>0.02</u>	\$ <u>0.03</u>	\$ <u>0.01</u>	\$ <u>0.01</u>
Weighted average number of common shares outstanding	<u>43,904,751</u>	<u>18,502,806</u>	<u>43,934,081</u>	<u>19,925,606</u>
Deficit, beginning of period	\$ 9,763,635	\$ 8,538,522	\$ 10,130,592	\$ 8,856,151
Net loss	<u>750,728</u>	<u>533,520</u>	<u>383,771</u>	<u>215,891</u>
Deficit, end of period	\$ <u>10,514,363</u>	\$ <u>9,072,042</u>	\$ <u>10,514,363</u>	\$ <u>9,072,042</u>

See accompanying notes to the consolidated financial statements.

Urodynamix Technologies Ltd.
Interim Consolidated Statements of Cash Flows
[Unaudited – prepared by management]

	For the six months ended June 30		For the fiscal quarter ended June 30	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Cash derived from (applied to)				
Operating				
Net loss	\$ (750,728)	\$ (533,520)	\$ (383,771)	\$ (215,891)
Depreciation and amortization	9,990	22,587	4,995	15,903
Stock-based compensation (Note 7)	97,161	61,295	42,186	26,255
Change in non-cash operating working capital				
Receivables	(107,931)	9,630	(104,985)	(7,307)
Prepays	6,825		10,075	16,303
Payables and accruals	14,664	217,420	42,428	162,584
Deferred revenue	120,806	3,840	121,238	3,840
	<u>(609,213)</u>	<u>(218,748)</u>	<u>(267,834)</u>	<u>1,687</u>
Financing				
Shares and Units issued for cash, net of financing fees	45,625	270,703	43,625	(172)
Repayment of obligation under capital lease	(350)	(7,049)	(3,439)	(4,232)
	<u>45,275</u>	<u>263,654</u>	<u>40,186</u>	<u>(4,404)</u>
Investing				
Premises and equipment	(5,357)	-	-	-
Technology	(26,377)	(125,202)	(26,377)	(119,298)
	<u>(31,734)</u>	<u>(125,202)</u>	<u>(26,377)</u>	<u>(119,298)</u>
Net decrease in cash	(595,672)	(80,296)	(254,025)	(122,015)
Cash and equivalents				
Beginning of period	<u>885,095</u>	<u>171,502</u>	<u>543,448</u>	<u>213,221</u>
End of period	<u>\$ 289,423</u>	<u>\$ 91,206</u>	<u>\$ 289,423</u>	<u>\$ 91,206</u>

See accompanying notes to the consolidated financial statements.

Urodynamix Technologies Ltd.

Notes to the Interim Consolidated Financial Statements

June 30, 2006 and 2005

1. Operations and going concern

On June 21, 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 Company's business strategy is to acquire and 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.

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%

Urodynamix Technologies Ltd.
Notes to the Interim Consolidated Financial Statements
June 30, 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.

Urodynamix Technologies Ltd.

Notes to the Interim Consolidated Financial Statements

June 30, 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

Urodynamix Technologies Ltd.
Notes to the Interim Consolidated Financial Statements
June 30, 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>June 30 2006</u>		
	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
Office furniture and equipment	\$ 30,492	\$ 19,312	\$ 11,180
Computer software	30,447	27,583	2,864
Computer and laboratory equipment	<u>122,776</u>	<u>87,519</u>	<u>35,257</u>
	<u>\$ 183,715</u>	<u>\$ 134,414</u>	<u>\$ 49,301</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 7), 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 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.

Urodynamix Technologies Ltd.
Notes to the Interim Consolidated Financial Statements
June 30, 2006 and 2005

5. Capital lease obligations

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

2006	\$	8,244
2007		12,871
2008		8,623
		<hr/>
		29,738
Less: interest at 19%		5,254
		<hr/>
		24,484
Less: current portion		11,499
	\$	<hr/>
		12,985
		<hr/>

6. Deferred Revenue

During the quarter, 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.

7. 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)
	<hr/>	<hr/>	<hr/>	<hr/>
Balance, December 31, 2005	43,859,392	\$ 8,565,120	32,220,454	\$ 1,017,230
Issued on exercise of warrants	441,667	42,339	(441,667)	(9,214)
Issued on exercise of options	125,000	25,750	-	-
Expiration of warrants	-	-	(4,265,454)	(414,100)
	<hr/>	<hr/>	<hr/>	<hr/>
Balance, June 30, 2006	<u>44,426,059</u>	<u>\$ 8,633,209</u>	<u>27,513,333</u>	<u>\$ 593,916</u>

Urodynamix Technologies Ltd.
Notes to the Interim Consolidated Financial Statements
June 30, 2006 and 2005

7. Capital stock (continued)

- (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.
- (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 June 30, 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.

Urodynamix Technologies Ltd.
Notes to the Interim Consolidated Financial Statements
June 30, 2006 and 2005

7. 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>		<u>Weighted Average Exercise Price Per Share</u>
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	700,000		0.15
Exercised	(125,000)		0.10
Cancelled	<u>(80,000)</u>		<u>0.21</u>
Outstanding, June 30, 2006	<u>3,435,000</u>	\$	<u>0.15</u>

The following table summarizes stock options outstanding and exercisable at June 30, 2006:

<u>Number Outstanding</u>	<u>Average Remaining Contractual Life (In Years)</u>	<u>Weighted Average Exercise Price Per Share</u>
375,000	1.9	\$0.10
50,000	2.3	0.26
350,000	2.7	0.30
200,000	3.2	0.19
1,760,000	4.3	0.12
500,000	4.6	0.16
<u>200,000</u>	<u>4.9</u>	<u>0.13</u>
<u>3,435,000</u>	<u>3.4</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>1,532,500</u>	<u>3.2</u>	<u>\$0.17</u>

Urodynamix Technologies Ltd.
Notes to the Interim Consolidated Financial Statements
June 30, 2006 and 2005

7. Capital stock (continued)

Stock options (continued)

During the six months ended June 30, 2006, the Company recorded \$97,161 (2005 – \$61,295) 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	3.88%	3.62%
Dividend yield	Nil	Nil
Expected volatility	116%	116%
Expected option life	5 years	5 years

The weighted average fair value of options granted during 2006 was \$0.12.

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	(441,667)
Expired	<u>(4,265,454)</u>
Outstanding, June 30, 2006	<u>27,513,333</u>

The following table summarizes information concerning warrants outstanding and exercisable at June 30, 2006:

Number Outstanding and <u>Exercisable</u>	Average Remaining Contractual Life <u>(In Years)</u>	Weighted Average Exercise Price Per Share
3,557,000	0.7	0.10
23,107,000	1.1	0.13
<u>849,333</u>	<u>1.1</u>	<u>0.08</u>
<u>27,513,333</u>	<u>1.1</u>	<u>\$0.12</u>

Urodynamix Technologies Ltd.
Notes to the Interim Consolidated Financial Statements
June 30, 2006 and 2005

7. Capital stock (continued)

Contributed surplus

Balance, December 31, 2004	\$	290,659
Options cancelled		99,335
Escrow shares cancelled		1,875
Expiration of warrants		<u>552,143</u>
Balance, December 31, 2005		944,012
Options cancelled		14,978
Expiration of warrants		<u>414,100</u>
Balance, June 30, 2006	\$	<u>1,373,090</u>

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>2006</u>	<u>2005</u>
Loss before income taxes	\$ <u>(750,728)</u>	\$ <u>(317,629)</u>
Expected tax recovery at combined federal and provincial rates of 34.90% (2005: 35.62%)	\$ (190,731)	\$ (113,139)
Stock-based compensation	33,909	12,481
Financing fees	-	(5,173)
Other	37,364	1,378
Change in valuation allowance	<u>119,458</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	\$ 1,878,000	\$ 1,444,000
Capital assets	314,000	233,000
Financing fees	118,000	72,000
Other	51,000	100,000
Valuation allowance	<u>(2,361,000)</u>	<u>(1,849,000)</u>
	\$ <u>Nil</u>	\$ <u>Nil</u>

Urodynamix Technologies Ltd.
Notes to the Interim Consolidated Financial Statements
June 30, 2006 and 2005

8. 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>647,000</u>
	\$	<u>5,380,000</u>

9. Related party transactions

The Company incurred consulting fees of \$90,000 (2005: \$60,300) 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.

10. 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>

11. 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	\$ 2,595	\$ 1,339

(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 acquire 700,000 common shares of the Company, as described in Note 7. The estimated fair value of the options, totalling \$87,200 will be recognized over the vesting period. Of the total, \$17,715 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 7. The estimated fair value of the options, totalling \$192,913 will be recognized over the vesting period.

Urodynamix Technologies Ltd.
Notes to the Interim Consolidated Financial Statements
June 30, 2006 and 2005

11. 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 7 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 7. The estimated fair value of these warrants of \$26,933 has been reported in the shareholder's equity balance.
- (iv) During the six months ending June 30, 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.

12. Subsequent events

As a less dilutive and cost-effective approach, Urodynamix received approval from the TSX Venture Exchange to initiate a warrant incentive program. In order to encourage the early exercise of outstanding warrants that expire in March 2007 and August 2007, Urodynamix amended the March 2007 Warrants and August 2007 Warrants so that upon payment of the applicable exercise price of \$0.10 and \$0.125 respectively, the holder would receive one unit instead of one common share. The new unit consists of a common share and an additional 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 March 2007 warrants and 18,229,000 of the August 2007 warrants were exchanged under the program. 9,818,000 New Warrants were issued under the program.

For warrant holders who did not exchange the March 2007 Warrants or the August 2007 Warrants by the end of July 24, 2006, the warrants will continue to be exercisable for common shares on the same terms that previously existed.

13. Comparative figures

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

Urodynamix Technologies Ltd.

Six months ended June 30, 2006 and 2005

Schedule of Research and Development Expenses

	<u>2006</u>	<u>2005</u>
Wages	\$ 191,353	\$ 92,143
Consulting (Note 8)	31,840	22,469
Trials	73,970	-
Research funding	(56,260)	-
Other	<u>36,618</u>	<u>2,128</u>
	<u>\$ 277,521</u>	<u>\$ 116,740</u>

Schedule of General and Administrative Expenses

	<u>2006</u>	<u>2005</u>
Wages	\$ 132,370	\$ 144,782
Consulting (Notes 8)	90,000	66,660
Professional fees	14,274	21,033
Investor relations	19,108	15,884
Rent	34,067	36,074
Other (Note 8)	<u>73,189</u>	<u>46,963</u>
	<u>\$ 363,008</u>	<u>\$ 331,396</u>

URODYNAMIX TECHNOLOGIES LTD.

Management's Discussion and Analysis of Financial Condition and Results of Operations for the Six months ended June 30, 2006

June 30, 2006

The following discussion and analysis should be read in conjunction with the audited financial statements and notes for the six months ended June 30, 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

On June 21, 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 acquire and 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 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 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.

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 UroDynamix'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.

UroDynamix 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 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.

UroDynamix 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

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. UroDynamix will not be pursuing further development of the AVID technology. Pursuant to the Company licensing 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 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 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 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 as the effect of outstanding options and warrants is anti-dilutive.

Outstanding Share Data

The authorized share capital of Urodynamix Technologies Ltd. is unlimited. At June 30, 2006 there were 44,426,059 shares outstanding (December 31, 2005: 43,859,392). There are 27,513,333 common shares reserved for issuance upon the exercise of common share purchase warrants (December 31, 2005: 32,220,454) and 3,435,000 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 June 30, 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.

See Subsequent Event note below for details of equity issued in July 2006.

Results of Operations

Net Loss

The consolidated net loss for the six months ended June 30, 2006, was \$750,728 or \$0.02 per share as compared with a net loss of \$533,520 or \$0.03 per share for the comparative period in 2005.

R&D Expenses

R&D Expenses were \$277,521 for the six months ended June 30, 2006, compared with \$116,740 for the comparative period in 2005. In the first half of 2006, Urodynamix was actively developing the NIRS Urodynamics and has incurred costs for prototype design and assembly, clinical trials and R&D headcount. For the comparative period in 2005, Urodynamix 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>June 30</u> <u>2006</u>	<u>June 30</u> <u>2005</u>
Wages	\$ 191,353	\$ 92,143
Consulting	31,840	22,469
Trials	73,970	-
Research Funding	(56,260)	-
Other	36,618	2,128
	<u>\$ 277,521</u>	<u>\$ 116,740</u>

General and Corporate Administrative Expenses

General and Administrative Expenses were \$363,008 for the six months ended June 30, 2006, compared with \$331,396 for the comparative period in 2005. The major causes of the increase in G&A are the costs related

to the corporate name change (e.g. legal fees, graphics creation, and website re-design) and the hiring of a Vice-President of Communications in the first quarter of 2006.

Amounts by major sub-category are as follows:

	<u>June 30</u> <u>2006</u>	<u>June 30</u> <u>2005</u>
Wages	\$ 132,370	\$ 144,782
Consulting	90,000	66,660
Professional fees	14,274	21,033
Investor Relations	19,108	15,884
Rent	34,067	36,074
Other	73,189	46,963
	<u>\$ 363,008</u>	<u>\$ 331,396</u>

Marketing Expenses

Marketing costs relate to the Company's non-core AVID technology. Marketing expense was \$5,513 for the six months ended June 30, 2006 compared with \$51,344 for the comparative period in 2005. In early 2006, the Company discontinued direct sales of the product and pursued a sale or licensing of its rights to the AVID technology. 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. In the comparative period of 2005, the expenditures reflected expenses related to the 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 six months ended June 30, 2006, total amortization expense was \$9,990 compared with \$22,587 for the comparative period in 2005. The decrease in amortization expense is due to the write-off at the end of fiscal 2005 of the remaining carrying cost of its investment in the AVID technology.

Related Parties

For the six months ended June 30, 2006, the Company incurred consulting fees of \$90,000 (2005: \$66,660) 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, 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 June 30, 2005, the Company had cash and cash equivalents of \$289,423 and working capital of \$187,419. 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 \$609,213 for the six months ended June 30, 2006 compared with \$218,748 for the comparative period in 2005. 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 \$31,734 for the six months ended June 30, 2006 compared with \$125,202 for the comparative period in 2005. The expenditures in the current year largely relate to legal and patent filing fees to support the NIRS Urodynamics technology. The expenditure in the prior year was for costs related to obtaining the license for the NIRS Urodynamics technology.

Cash provided by the issuance of new shares during the six months ended June 30, 2006 was \$45,625 as compared to \$270,703 in 2005. The share issuance in 2005 represents net proceeds primarily from a private placement completed on March 11, 2005. Other financing activities related to capital lease transactions. During the six months ended June 30, 2006, Urodynamix made net capital lease financing payments of \$350 compared with net capital lease payments of \$7,049 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 (see Subsequent Event below). The Company has no material commitments.

Subsequent Event

The Company chose to complete an equity financing through an amendment to existing warrants. This approach was much less costly and dilutive than a private placement. Urodynamix received approval from the TSX Venture Exchange to amend the March 2007 Warrants and August 2007 Warrants so that upon payment of the applicable exercise price of \$0.10 and \$0.125 respectively, the holder would receive one unit instead of one common share. The new unit consists of a common share and an additional 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 March 2007 warrants and 18,229,000 of the August 2007 warrants were exchanged under the program. 9,818,000 New Warrants were issued under the program.

For warrant holders who did not exchange the March 2007 Warrants or the August 2007 Warrants by the end of July 24, 2006, the warrants will continue to be exercisable for common shares on the same terms that previously existed.

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
	<u>374,129</u>
	\$ <u>374,129</u>

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 six months, 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, and our employment

agreement with Mr. Allen is currently being renewed. 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 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	432	4,628	n/a	n/a
Loss	366,957	383,771	n/a	n/a
Loss per common share	(0.01)	(0.01)	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)

CORPORATE DATA

JUNE 30, 2006

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AND
OFFICERS**

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

CAPITALIZATION

Authorized:	Unlimited
Issued:	44,426,059
Escrow:	130,000
Options:	3,435,000
Warrants:	27,513,333

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