

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 interim financial statements by an entity's auditor.

"James Heppell"

James Heppell, Director

Interim Financial Statements of

Urodynamix Technologies Ltd.

June 30, 2009

(Unaudited)

Urodynamix Technologies Ltd.

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Investment Information:

Shares Listed: TSX-V:URO

Common shares authorized: Unlimited

Common shares outstanding as at:

December 31, 2008 107,227,893

March 31, 2009 107,227,893

June 30, 2009 107,227,893

August 25, 2009 107,377,893

Urodynamix Technologies Ltd.

June 30, 2009

Table of contents

Statement of operations, comprehensive loss and deficit	2
Statement of shareholders' equity	3
Balance sheet	4
Statement of cash flows.....	5
Notes to the financial statements	6-12
Schedule of operating expenses.....	13

Urodynamix Technologies Ltd.

Interim statement of operations, comprehensive loss and deficit

Quarter ended June 30, 2009 and 2008

(Unaudited - prepared by management)

	Three months ended June 30		Six months ended June 30	
	2009	2008	2009	2008
	\$	\$	\$	\$
Revenue	21,871	72,871	293,152	94,253
Cost of goods sold	7,411	35,131	177,994	42,859
Gross profit	14,460	37,740	115,158	51,394
Expenses				
General and administrative (Schedule)	361,562	356,329	672,071	684,696
Research and development (Schedule)	248,584	429,481	525,038	767,990
Selling and Marketing (Schedule)	152,222	24,184	264,333	24,184
Stock-based compensation	97,008	75,858	149,465	160,785
Amortization of property and equipment	18,122	8,006	25,444	15,077
	877,498	893,858	1,636,351	1,652,732
Loss from operations	(863,038)	(856,118)	(1,521,193)	(1,601,338)
Other income (expenses)				
Realized and unrealized foreign exchange loss	(47,018)	(1,540)	(47,018)	(1,575)
Interest expense	(1,529)	(1,047)	(2,911)	(2,328)
Interest income	1,651	12,305	5,950	36,760
	(46,896)	9,718	(43,979)	32,857
Net loss and comprehensive loss for the period	(909,934)	(846,400)	(1,565,172)	(1,568,481)
Basic and diluted loss per share	(0.01)	(0.01)	(0.01)	(0.02)
Weighted average number of basic and diluted common shares outstanding	107,227,893	81,828,662	107,227,893	81,713,278

Urodynamix Technologies Ltd.

Interim statement of shareholders' equity

Quarter ended June 30, 2009 and 2008

(Unaudited - prepared by management)

	Common shares		Contributed surplus	Total capital	Deficit	Total shareholders' equity
	<u>Issuable, Issued and outstanding</u>					
	Number	Amount				
		\$	\$	\$	\$	\$
Balance, December 31, 2007	81,727,893	14,844,503	2,071,463	16,915,966	(14,283,566)	2,632,400
Net loss	-	-	-	-	(1,568,481)	(1,568,481)
Stock-based compensation	-	-	160,785	160,785	-	160,785
Shares issued	250,000	58,750	-	58,750	-	58,750
Balance, June 30, 2008	81,977,893	14,903,253	2,232,248	17,135,501	(15,852,047)	1,283,454
Net loss	-	-	-	-	(1,859,551)	(1,859,551)
Shares issued for cash pursuant to private placement, net of costs	25,000,000	2,466,260	-	2,466,260	-	2,466,260
Stock-based compensation	-	-	137,771	137,771	-	137,771
Shares issued	250,000	48,750	-	48,750	-	48,750
Balance, December 31, 2008	107,227,893	17,418,263	2,370,019	19,788,282	(17,711,598)	2,076,684
Net loss	-	-	-	-	(1,565,172)	(1,565,172)
Stock-based compensation	-	-	149,465	149,465	-	149,465
Balance, June 30, 2009	107,227,893	17,418,263	2,519,484	19,937,747	(19,276,770)	660,977

Urodynamix Technologies Ltd.

Balance sheet

(Unaudited - prepared by management)

	June 30, 2009	December 31, 2008
	\$	\$
Assets		
Current assets		
Cash and cash equivalents	575,027	1,762,794
Restricted cash	-	500,000
Accounts receivable	305,550	108,116
Inventory	284,599	78,772
Prepays	70,078	84,107
	<u>1,235,254</u>	<u>2,533,789</u>
Property and equipment	157,331	173,946
	<u>1,392,585</u>	<u>2,707,735</u>
Liabilities		
Current liabilities		
Accounts payable and accruals	533,830	454,867
Deferred revenue	187,890	159,884
Current portion of capital lease obligations	8,245	12,277
	<u>729,965</u>	<u>627,028</u>
Capital lease obligations	1,643	4,023
	<u>731,608</u>	<u>631,051</u>
Shareholders' equity		
Capital stock	17,418,263	17,418,263
Contributed surplus	2,519,484	2,370,019
Deficit	(19,276,770)	(17,711,598)
	<u>660,977</u>	<u>2,076,684</u>
	<u>1,392,585</u>	<u>2,707,735</u>

Going concern assumption (Note 2)

Commitments (Note 12)

Contingency (Note 13)

Subsequent event (Note 14)

Approved by the Directors

"Paul Geyer"

Paul Geyer, Director

"James Heppell"

James Heppell, Director

Urodynamix Technologies Ltd.

Interim statement of cash flows

Quarter ended June 30, 2009 and 2008

(Unaudited - prepared by management)

	Three months ended		Six Months Ended	
	June 30		June 30	
	2009	2008	2009	2008
	\$	\$	\$	\$
Operating activities				
Net loss	(909,934)	(846,400)	(1,565,172)	(1,568,481)
Items not involving cash				
Amortization of property and equipment	18,122	8,006	25,444	15,077
Amortization of deferred revenue	(9,146)	(9,141)	(18,287)	(15,686)
Write off of deferred non-cash tenant inducements	-	(1,570)	-	(3,140)
Stock-based compensation	97,008	75,858	149,465	160,785
	(803,950)	(773,247)	(1,408,550)	(1,411,445)
Change in non-cash working capital				
Accounts receivable	38,747	7,044	(197,434)	(63,072)
Inventory	(21,102)	(63,206)	(205,827)	(124,211)
Prepays	16,894	6,115	14,029	17,647
Accounts payable and accruals	(154,645)	27,468	78,963	(84,461)
Deferred revenue	-	-	46,288	49,490
	(924,056)	(795,826)	(1,672,531)	(1,616,052)
Investing activities				
Decrease in restricted cash	500,000	-	500,000	-
Property and equipment	(3,425)	(4,906)	(8,829)	(70,607)
	496,575	(4,906)	491,171	(70,607)
Financing activities				
Repayment of capital lease obligations	(3,138)	(5,420)	(6,412)	(10,608)
	(3,138)	(5,420)	(6,411)	(10,608)
Net decrease in cash and cash equivalents	(430,619)	(806,152)	(1,187,772)	(1,697,267)
Cash and cash equivalents, beginning of period	1,005,641	2,165,162	1,762,794	3,056,277
Cash and cash equivalents, end of period	575,022	1,359,010	575,022	1,359,010
Cash and cash equivalents are comprised of				
Cash	455,022	59,010	455,022	59,010
Cash equivalents	120,000	1,300,000	120,000	1,300,000
	575,022	1,359,010	575,022	1,359,010
Supplemental cash flow information:				
Interest paid	1,529	1,047	2,911	2,328
Taxes paid	-	-	-	-

Urodynamix Technologies Ltd.

Notes to the interim financial statements

For the six months ended June 30, 2009

1. Description of Business

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

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

2. Going Concern Assumption

The Company has a history of operating losses and negative cash flows from operations in every period since inception as it is currently developing technology on a long-term basis with uncertain prospects, and has no significant source of revenue. For the six month period ended June 30, 2009, the Company incurred an operating loss of \$1,521,193 (2008: \$1,601,338) and negative cash flow from operations of \$1,672,531 (2008: \$1,616,052). As of June 30, 2009 the Company had an accumulated deficit of \$19,276,770 (2008: \$15,852,047).

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

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

3. Basis of presentation

These interim unaudited financial statements of the Company have been prepared in accordance with Canadian generally accepted accounting principles. These accounting principles are consistent with those outlined in the annual audited financial statements of the Company for the year ended December 31, 2008, with the exception of the changes disclosed in note 4. These interim financial statements do not include all disclosures normally provided in annual financial statements and should be read in conjunction with the Company's audited financial statements for the year ended December 31, 2008. In Management's opinion, the unaudited financial information includes all adjustments necessary to present fairly such information. Interim results are not necessarily indicative of the results expected for the fiscal year.

4. Changes in accounting policies

The Company has adopted the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3064, *Goodwill and Intangible Assets*.

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

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

Accordingly, the Company has adopted the standards as of January 1, 2009. The new standard establishes the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets. The adoption of

Urodynamix Technologies Ltd.

Notes to the interim financial statements

For the six months ended June 30, 2009

4. Changes in accounting policies (continued)

the Section did not have a material impact on the financial statements of the Company.

(b) *International Financial Reporting Standards*

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

5. Managing Capital

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

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

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

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

6. Financial Instruments

(a) *Financial Instruments*

The Company has classified financial instruments as follows:

<i>Financial Assets and Liabilities</i>	June 30 2009	December 31, 2008
Financial Assets		
Held for trading, measured at fair value		
Cash and cash equivalents	\$ 575,027	\$ 1,762,794
Restricted cash	-	500,000
Loans and receivables, measured at amortized cost	305,550	108,116
Financial Liabilities		
Other liabilities, measured at amortized cost		
Accounts payable and accrued liabilities	\$ 533,830	\$ 454,867
Capital lease obligations	9,888	16,300

Due to the short term nature of loans and receivables, accounts payable and accrued liabilities their fair value approximates amortized cost. The Company had no held-to-maturity or available-for-sale financial instruments at June 30, 2009 or at December 31, 2008.

Urodynamix Technologies Ltd.

Notes to the interim financial statements

For the six months ended June 30, 2009

6. Financial Instruments (continued)

(b) Cash equivalents

At June 30, 2009, the Company held \$120,000 in guaranteed investment certificates (GIC) returning a variable rate of interest. The weighted average interest rate on the GIC is 1.07% per annum (2008: 3.77% per annum). The GIC has a maturity date of one year and are cashable at any time for face value plus accrued interest.

(c) Restricted cash

Under the terms of the \$2,500,000 financing completed November 5, 2008, \$500,000 of the subscription proceeds were deposited in escrow, to be held by a third party, until the approval by the Company's shareholders of BC Advantage Funds being a control person. In order for the funds to be released to the Company, the TSX Venture Exchange required that shareholders of the Corporation approve BC Advantage Funds becoming a control person of the Corporation. The Company submitted the matter to shareholders who approved at its AGM, held May 28, 2009. The restricted cash balance at June 30, 2009 was \$Nil (2008 \$Nil).

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

Credit risk

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

The Company provides credit to its customers in the normal course of operations. The Company's credit risk review includes performing credit evaluations of the financial condition of its significant customers. For the period ended June 30, 2009, the Company sold its products through three distributors and as a result its trade receivable balance, at period end, was comprised of amounts due from Laborie Medical Technologies Inc and Medical Measurements Systems B.V.

Foreign currency risk

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

Liquidity risk

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

Urodynamix Technologies Ltd.

Notes to the interim financial statements

For the six months ended June 30, 2009

7. Capital stock

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

	June 30 2009	June 30 2008
Outstanding, end of period	107,227,893	81,977,893

(b) *Shares held in escrow*

At June 30, 2009, 130,000 (2008: 130,000) performance based shares were held in escrow. These shares may be released from escrow based on achievement of certain cumulative cash flow criteria. These shares are subject to cancellation on December 1, 2010 if not released from escrow before that date.

(c) *Stock options*

The Company adopted a rolling stock option plan (the "Plan"), approved by the Company's stockholders on June 7, 2006, and subsequently approved by the TSX Venture Exchange, which reserves for issuance under the Plan options to purchase a maximum of 10% of the issued and outstanding shares of the Company. Options granted vest over a minimum period of 18 months and a maximum period of five years, in equal installments on a quarterly, semi-annual or annual basis.

A summary of stock option activity follows:

	Six months ended June 30,			
	2009		2008	
	Options to purchase common shares	Weighted average exercise price	Options to purchase common shares	Weighted average exercise price
Outstanding, beginning of period	7,625,500	\$ 0.17	6,718,500	\$ 0.16
Granted	2,000,000	0.10	826,000	0.22
Cancelled	(492,000)	0.24	(20,000)	0.19
Outstanding, at end of period	9,133,500	\$ 0.17	7,524,500	\$ 0.17
Exercisable, end of period	7,400,500	\$ 0.16	4,671,875	\$ 0.16

During the six month period ended June 30, 2009, the Company recorded \$149,465 (2008: 160,785) 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:

Urodynamix Technologies Ltd.

Notes to the interim financial statements

For the six months ended June 30, 2009

7. Capital stock (continued)

(d) *Contributed surplus*

	June 30 2009	June 30 2008
	\$	\$
Opening, beginning of period	2,370,019	2,071,463
Stock compensation expense	149,465	160,785
Balance, end of period	<u>2,519,484</u>	<u>2,232,248</u>

8. Deferred Revenue

		June 30, 2009	
	Cost	Accumulated Amortization	Net Book Value
URO-NIRS distribution agreement (i)	\$ 103,875	21,643	82,232
AVID product sublicense (ii)	125,937	66,467	59,470
Suntek Medical Systems (iii)	46,188	-	46,188
	<u>\$ 276,000</u>	<u>88,110</u>	<u>187,890</u>
		\$	\$
		December 31 2008	
	Cost	Accumulated Amortization	Net Book Value
URO-NIRS distribution agreement	\$ 103,875	13,954	89,919
AVID product sublicense	125,937	55,972	69,965
	<u>\$ 229,812</u>	<u>69,926</u>	<u>159,884</u>
		\$	\$

- (i) On October 22, 2007, the Company signed a seven-year Distribution Agreement with Laborie Medical Corp. ("Laborie"). The Agreement granted Laborie non-exclusive sales, marketing and distribution rights for the Company's URO-NIRS Bladder Monitor in North America and Europe, and exclusive sales, marketing and distribution rights in South America, the Middle East and Asia.

Pursuant to the Distribution Agreement, Laborie paid the Company an upfront licensing fee of US\$50,000. On March 5, 2008, Laborie obtained 510(k) clearance from the U.S. Food and Drug Administration ("FDA") to market their urodynamics equipment with the Tetra™ Bladder Monitor System which is based on the Company's near infrared spectroscopy ("NIRS") technology. Under the terms of the Distribution Agreement, the receipt of FDA clearance triggered a payment of US\$50,000 to the Company by the distributor. Furthermore, with the receipt of FDA clearance prior to March 31, 2008, a refundable license fee provision was nullified. An additional payment of US\$50,000 may be earned by the Company upon the distributor

Urodynamix Technologies Ltd.

Notes to the interim financial statements

For the six months ended June 30, 2009

8. Deferred Revenue (continued)

commencing commercial sales into certain foreign markets. Laborie is to provide limited funding of up to US\$300,000 for four individual clinical trials to be carried out by the Company as part of the two companies' effort to develop a marketable product.

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

(iii) On March 31, 2009, the Company received \$46,288, representing a 50% deposit, from Suntek Medical Systems. The remaining balance of \$46,288 is due upon receipt of Korean FDA approval and prior to shipment, expected by the Company in fiscal 2009.

9. Concentration of Credit Risk

As of June 30, 2009, the Company had three distributors for its recently developed URO-NIRS technology. For the foreseeable future the majority of the Company's revenues will be derived from its distributors.

10. Related party transactions

During the six months ended June 30, 2009, the Company incurred consulting fees of \$5,213 (2008: \$26,500) for technical services provided by one director.

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

11. Capital lease obligations

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

2009	\$	8,357
2010		1,450
2011		846
2012		-
		<u>10,653</u>
Less: interest at average rate of 12% per annum		<u>(2,408)</u>
		8,245
Less: current portion		<u>(8,245)</u>
	\$	<u>0</u>

Urodynamix Technologies Ltd.

Notes to the interim financial statements

For the six months ended June 30, 2009

12. Commitments

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

2009	\$	102,097
2010		206,745
2011		155,059
2012		-
		<u>463,901</u>

13. Contingency

As at June 30, 2009, the Company has \$170,000 accrued for fiscal 2008 bonuses that were earned and accrued in fiscal 2008 but for which payment will only be made when it has been approved by the Company's board of directors.

14. Subsequent event

On August 12, 2009 the TSX Venture Exchange accepted for filing documentation in connection with an assignment agreement dated May 18, 2007 between the Company and Dr. Sidney Radomski pursuant to which the Company has acquired rights, title and interest in and to the invention forming part of or otherwise relating to the ED provisional patent application 60/888012. The consideration paid was 150,000 common shares of the Company. The shares were issued August 13, 2009.

Urodynamix Technologies Ltd.

Interim schedule of operating expenses

Quarter ended June 30, 2009 and 2008

(Unaudited - prepared by management)

	Three months ended		Six months ended	
	June 30		June 30	
	2009	2008	2009	2008
	\$	\$	\$	\$
General and administrative expenses				
Wages	147,174	184,041	310,279	380,033
Other	88,499	52,040	138,035	94,058
Travel	13,505	42,309	47,144	76,715
Professional fees	40,602	33,527	53,130	47,021
Rent	50,411	20,032	100,821	40,065
Investor relations	21,371	16,130	22,662	24,304
Consulting	-	8,250	-	22,500
	<u>361,562</u>	<u>356,329</u>	<u>672,071</u>	<u>684,696</u>
Research and development expenses				
Wages	198,454	221,535	427,236	416,579
Trials	9,413	112,866	9,413	148,320
Other	98,093	40,731	132,381	94,012
Patent related fees	15,433	47,413	30,092	72,746
Consulting	1,775	21,002	12,123	50,399
Research funding	<u>(74,584)</u>	<u>(14,066)</u>	<u>(86,207)</u>	<u>(14,066)</u>
	<u>248,584</u>	<u>429,481</u>	<u>525,038</u>	<u>767,990</u>
Selling and marketing expenses				
Wages	79,423	24,184	150,417	24,184
Travel	72,693	-	107,388	-
Other	106	-	6,528	-
	<u>152,222</u>	<u>24,184</u>	<u>264,333</u>	<u>24,184</u>

Management's Discussion & Analysis

Urodynamix Technologies Ltd.

For the three months ended June 30, 2009



Management's Discussion and Analysis of Financial Condition and Results of Operations for the Three months ended June 30, 2009

June 30, 2009

The following discussion and analysis (MD&A) should be read in conjunction with the unaudited interim financial statements and notes for the three months ended June 30, 2009 as well as the audited financial statements and notes for the year ended December 31, 2008. 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. This MD&A is dated August 25, 2009.

Forward-Looking Statements

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

Risk Factors

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

Overview

Urodynamix Technologies Ltd. (Urodynamix) is a Canadian medical device company that develops and commercializes non-invasive medical devices based on proprietary applications of near-infrared spectroscopy (NIRS) for the diagnosis of urological diseases and conditions, including:

- Urinary incontinence (UI) and Lower urinary tract symptoms (LUTS)
- Benign prostatic hyperplasia (BPH)
- Prostate cancer
- Erectile dysfunction (ED)
- Intra-abdominal hypertension (IAH) and abdominal compartment syndrome (ACS)

Results of Operations

Quarterly Financial Information

Net Loss

The net loss for the quarter ended June 30, 2009, was \$909,934 or \$0.01 per share as compared with a net loss of \$846,400 or \$0.01 per share for the comparative period in 2008. While the loss is comparable to the same period of the prior year the mix of operating expenses has shifted from research and development to selling, general and administrative reflecting the focus on commercializing the URO NIRS Bladder products. Operating expenses at \$863,038 were \$6,920 higher than the same period of the prior year with increases in the current period's sales and marketing expenses, to support product introduction, being offset by decreases in research and development expenses. The current quarter's loss was also negatively affected by foreign exchange losses totaling \$47,018 resulting from the revaluation of net US dollar assets at June 30, 2009. Gross margin generated on sales did not significantly reduce the quarter's net loss.

Revenues and Gross Margin

Revenues were \$21,871 for the quarter ended June 30, 2009, compared with \$72,871 for the comparative period in 2008. During the second quarter of 2009 and for the comparative quarter of the prior year, the Company's sales were derived solely from the sale of URO NIRS Tetra units to its distributor Laborie Medical Technologies Inc.

Gross margin for the period increased from 51.7% to 66.1% reflecting the sales mix that included higher margin disposable patch sales and the amortization of deferred revenues that have no corresponding cost of sales. On a year to date basis gross margin at 39.3% is lower than the gross margin of the same period for the prior year to date of 54.5% reflecting first time production run expenses and lower introductory pricing on the URO NIRS 2000 sales in the current period. Management expects that as sales volumes increase and the sales mix trends towards the sale of consumables that the margin percentage will increase.

General and Administrative Expenses

General and administrative Expenses were \$361,562 for the quarter ended June 30, 2009, compared with \$356,329 for the comparative period in 2008 with increases in rent expense resulting from relocating the business in August of 2008, being offset by lower wages, the result of decreased headcount.

Amounts by major sub-category are as follows:

	<u>2009</u>	<u>2008</u>
Wages	\$ 147,174	\$ 184,041
Rent	50,411	20,032
Other	88,499	52,040
Travel	13,505	42,309
Professional fees	40,602	33,527
Investor Relations	21,371	16,130
Consulting	-	8,250
	<u>\$ 361,562</u>	<u>\$ 356,329</u>

Sales and Marketing Expenses

Sales and marketing were \$152,222 for the quarter ended June 30, 2009, compared with \$24,184 for the comparative period in 2008. The Company added business development and internal sales and marketing resources during the second quarter of the prior year to support product introduction and market development activities for the URO NIRS 2000.

Amounts by major sub-category are as follows:

	<u>2008</u>	<u>2007</u>
Wages	\$ 79,423	\$ 24,184
Travel	72,693	-
Other	106	-
	<u>\$ 152,222</u>	<u>\$ 24,184</u>

R&D Expenses

The Company has several NIRS development projects ongoing including:

- Urinary incontinence (UI)
- Lower urinary tract symptoms (LUTS)
- Prostate cancer and benign prostatic hyperplasia (BPH)
- Erectile dysfunction (ED)

R&D Expenses were \$248,584 for the quarter ended June 30, 2009, compared with \$429,481 for the comparative period in 2008. The decrease in current period R&D expenses is primarily attributable to there being no active research trials in the current year compared to the same period last year when the Company was conducting a trial at the University of Calgary for abdominal compartment syndrome (ACS). R&D headcount has increased to ten staff at June 30, 2009 as compared to nine staff at June 30, 2008 with the increase in wages being offset by a decrease in the consulting fees paid to part-time contractors.

Research funding in the first quarter of 2009 at \$74,584, compared to \$14,066 for the same period of the prior year, represents the payments from IRAP for the development of a TUMT product.

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

	<u>2008</u>	<u>2007</u>
Wages	\$ 198,454	\$ 221,535
Other	98,093	40,731
Patent related fees	15,433	47,413
Consulting	1,775	21,002
Trials	9,413	112,866
Research Funding	<u>(74,584)</u>	<u>(14,066)</u>
	<u>\$ 248,584</u>	<u>\$ 429,481</u>

Depreciation and Amortization

Amortization expense relates to the amortization of capital and intangible assets. For the quarter ended June 30, 2009, total amortization expense was \$18,122 compared with \$8,006 for the comparative period in 2008. The increase in amortization is due to the purchase of manufacturing equipment required for the production of the URO-NIRS product.

Related Party Transactions

During the six months ended June 30, 2009, the Company incurred consulting fees of \$5,213 (2008 year - \$26,500) for technical services provided by one director.

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. However, there can be no assurance that such funds can be available on favorable terms, if at all.

As at June 30, 2009, the Company had cash and cash equivalents of \$575,027 and working capital of \$505,289. This compares with cash and cash equivalents of \$2,262,794 and a working capital position of \$1,906,761 at December 31, 2008.

Under the terms of the \$2,500,000 financing completed November 5, 2008, \$500,000 of the subscription proceeds were deposited in escrow, to be held by a third party, until the approval by the Company's shareholders of BC Advantage Funds being a control person. The Company submitted the matter to its shareholders at its May 28, 2009 AGM and received approval. The restricted cash balance of \$500,000 was released June 2, 2009.

Cash used in operating activities was \$924,056 for the three months ended June 30, 2009 compared with \$795,826 for the comparative period in 2008. The increase in cash used in operations is due primarily to the build up of uro NIRS 2000 product and subsequent investment in working capital. While activities in the same period of the prior year were focused on prototype design and assembly, clinical trials and R&D headcount, the focus in the current period had been on the manufacturing of the URO NIRS 2000 and business and market development to support the product introduction and sale.

Accounts receivable increased from \$108,116 at December 31, 2008 to \$305,550 at June 30, 2009 due to the sale of URO NIRS 2000 product in the first quarter. Inventory levels rose from \$78,772 at December 31, 2008 to \$284,599 due to the build-up of URO NIRS 2000 finished product when compared to the prior year. Prepaid expenses decreased to \$70,078 at June 30, 2009 from \$84,107 at December 31, 2008. Prepaid expenses consist mainly of deposits and prepaid insurance premiums. Accounts payable increased from \$454,867 at December 31, 2008 to \$533,830 at June 30, 2009 due primarily to inventory build costs related to the URO NIRS 2000. Deferred revenue increased from \$159,884 at December 31, 2008 to \$187,890 at June 30, 2009 due to the receipt of \$46,288 from Suntek Systems, in the first quarter of fiscal 2009, as a deposit on their order, expected to be shipped upon approval from the KFDA in Korea.

Cash provided by investing activities was \$496,575 for the three months ended June 30, 2009, compared with \$4,906 used in the comparative period in 2008. The increase in cash provided by investing activities was provided from the release of \$500,000, following the approval by shareholders at the May 28, 2009 annual general meeting of Lions Capital, the Company's largest shareholder, being a control person as defined by the Toronto Stock Exchange. Expenditures on capital equipment, \$3,425, made during the quarter were for computer equipment.

There was no cash provided by the issuance of new shares during the three months ended June 30, 2009 and June 30, 2008.

Management believes that cash flows from operations and funds on hand will be insufficient to fund its cash requirements through the next 12 months. Accordingly, the Company plans to issue more securities at such time as it believes additional capital could be obtained. There can be no assurance that such funds can be available on favorable terms, if at all.

Outstanding Share and Warrant Data

The authorized share capital of Urodynamix Technologies Ltd. is unlimited. At August 25, 2009 there were 107,227,893 common shares outstanding. There were 9,133,500 common shares reserved for issuance upon the exercise of stock options outstanding under the Company's Stock Option Plan and 130,000 performance shares were held in escrow. The performance shares may be released from escrow on the

achievement of cumulative cashflow criteria and are subject to cancellation on December 1, 2010 if not released from escrow before that date.

Critical Accounting Policies and Estimates

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

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

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

Basis of presentation

These interim unaudited financial statements of the Company have been prepared in accordance with Canadian generally accepted accounting principles. These accounting principles are consistent with those outlined in the annual audited financial statements of the Company for the year ended December 31, 2008, with the exception of the changes disclosed in note 3. These interim financial statements do not include all disclosures normally provided in annual financial statements and should be read in conjunction with the Company's audited financial statements for the year ended December 31, 2008. In Management's opinion, the unaudited financial information includes all adjustments necessary to present fairly such information. Interim results are not necessarily indicative of the results expected for the fiscal year.

Changes in accounting policies

During the current fiscal year, the Company has adopted the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3064, *Goodwill and Intangible Assets*.

(a) Handbook Section 3064, Goodwill and Intangible Assets

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

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

(b) International Financial Reporting Standards

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

Summary of Quarterly Results

The following table sets out selected quarterly information for the first two quarters of fiscal 2009 and the previous eight quarters of fiscal 2008 and 2007.

Quarter Ended 2009	March 31 \$	June 30 \$	September 30 \$	December 31 \$
Revenue	271,281	21,871	n/a	n/a
Loss	(655,238)	(909,934)	n/a	n/a
Loss per common share	(0.01)	(0.01)	n/a	n/a
Quarter Ended 2008	March 31 \$	June 30 \$	September 30 \$	December 31 \$
Revenue	21,382	72,871	33,498	61,142
Loss	(722,081)	(846,400)	(723,360)	(1,136,191)
Loss per common share	(0.01)	(0.01)	(0.01)	(0.01)
Quarter Ended 2007	March 31 \$	June 30 \$	September 30 \$	December 31 \$
Revenue	9,237	5,679	5,631	5,247
Loss	(619,852)	(641,176)	(628,561)	(733,098)
Loss per common share	(0.01)	(0.01)	(0.01)	(0.01)

CORPORATE DATA

JUNE 30, 2009

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DIRECTORS AND OFFICERS

Barry J. Allen	President & Chief Executive Officer
Jonathan Jackson	Chief Financial Officer
Dr. Luya Li	Vice-President, Technology
Greg Gauthier	Vice-President, Business Development
Pierre Leduc	Chairman
Dr. David Goodkin	Director
James Heppell	Director
Paul Geyer	Director
Dr. Zeid Mohamedali	Director
Tanner Philp	Corporate Secretary

CAPITALIZATION

Authorized:	Unlimited
Issued:	107,227,893
Escrow:	130,000
Options:	9,133,500
Warrants:	Nil

SOLICITOR

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