



## 2006 INTERIM MANAGEMENT REPORT OF FUND PERFORMANCE CANADIAN MEDICAL DISCOVERIES FUND INC.

This interim management report of fund performance contains financial highlights and accompanies the unaudited interim financial statements of Canadian Medical Discoveries Fund Inc. (the "Fund"). You may request a copy of the Fund's unaudited interim or audited annual financial statements, the current proxy voting policies and procedures or quarterly portfolio disclosure at no cost by calling our toll free number 1-866-299-7929, by writing to us at Canadian Medical Discoveries Funds, BCE Place, 181 Bay Street, Suite 3740, Toronto, Ontario M5J 2T3, or by visiting our website at [www.cmdf.com](http://www.cmdf.com).

The interim management report of fund performance and accompanying financial statements have been approved by the Board of Directors on April 7, 2006, but have not been reviewed by Ernst & Young LLP, the external auditors of the Fund.

The Fund's proxy voting disclosure record for the period ending June 30, 2006 will be available free of charge upon request at any time after August 31, 2006, by visiting our website at [www.cmdf.com](http://www.cmdf.com).

### MANAGEMENT DISCUSSION OF FUND PERFORMANCE

#### Results of Operations

The net asset value of the Fund at February 28, 2006 was \$239.28 million. There were 29,548,283 Class A shares outstanding.

#### Revenue

The Fund had revenue of \$1.75 million in the 2006 six month interim period ended February 28 (the "Interim Period"), compared to \$890,000 over the same period in 2005. This revenue is composed of primarily interest and dividend income earned on the venture investments and marketable securities.

#### Investment Performance

During the Interim Period, the Fund was able to generate positive investment performance. The six month return for Class A Shares was 3.98%. The Labour Sponsored Investment Fund ("LSIF") Peer Group Average performance, as tracked by Globefund representing the average of the 109 LSIFs in Canada, for the six month period ending February 28, 2006 was 0.8%. The Fund's performance was a result of price appreciation of some of the Funds publicly-traded securities and increased valuations as a result of substantial arm's length financings completed at new valuations on some of the portfolio's private investee companies. The companies primarily responsible for positive investment performance include Systems Xcellence (SXC-T), AnorMED Inc. (AOM-T), MethylGene (MYG-T) and NeuroMed Pharmaceuticals Inc. During the Interim Period, the Fund partially exited its positions in AnorMED Inc. (AOM-T), Neurocrine Biosciences Inc. (NBIX-N), and Systems Xcellence (SXC-T) with proceeds of more than \$20 million, and made approximately \$6.9 million of follow-on investments in Resonant Medical Technologies, Targanta Therapeutics, Gemin X Biotechnologies, Cytochroma and NeuroMed Pharmaceuticals.

#### Legislative Uncertainty

On September 20, 2005 the Ontario Ministry of Finance ("MOF") confirmed its plans to end its involvement with the LSIF tax credit program and harmonize certain requirements to help LSIFs move to the federal government's Labour Sponsored Venture Capital

Corporation program. The province proposes to phase out the tax credit over a six-year period ending with the 2011 RSP season. Should the government implement legislation to that effect, investors who purchase the Fund after the date the tax credit is officially eliminated will no longer be eligible for a provincial tax credit equal to 15% of the purchase price of Class A Shares of the Fund. The MOF, in consultation with the LSIF industry has reported that it is in the process of developing transitional rules governing investment obligations, investment eligibility and reporting requirements. Until the transitional rules have been legislated, management of the Fund will be unable to definitively determine the impact that such changes will have on the assets of the Fund over the long run. Should the transitional rules be received by the market as unfavourable, there could be a material adverse effect on the Fund.

#### Expenses and Liabilities

Operating expenses decreased during the Interim Period compared to the same period in 2005. The average daily net assets for the Interim Period were almost \$54 million less than the comparative 2005 period due in large part to \$36 million in net redemptions for the year and a half beginning September 1, 2004. Any operating expenses calculated as a percentage of the net assets of the Fund, such as management fees and some administration fees, have decreased accordingly. The liabilities of the Fund increased by \$173,000 for the Interim Period primarily as a result of an increase in the amounts payable for securities redeemed.

### RECENT DEVELOPMENTS

#### Change of Control of the Manager

On December 14, 2005, Impax Capital Corp. ("Impax") signed an agreement to, indirectly, acquire all of the issued and outstanding shares of Medical Discovery Management Corp. ("MDMC"), the manager of the Fund. This change received securities regulatory approval in January 2006. Under new management, MDMC is committed to improving the Fund's performance and will do so by focusing on reducing the operating costs and streamlining the marketing and investment initiatives of the Fund.



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**RELATED PARTY TRANSACTIONS**

The Manager is deemed to be a related party. Please refer to the section titled "Management Fees" which outlines the 2006 and 2005 fees paid to these related parties.

**FINANCIAL HIGHLIGHTS**

The following tables show selected key financial information about the Fund, which are intended to help you understand the Fund's financial performance for the last five years. This information is derived from the Fund's interim unaudited financial statements.

**The Fund's net asset value (NAV) per share for the interim period ended February 28, 2006 and the years ended August 31,**

	2006 <sup>(1)</sup>	For the years ended August 31,				
		2005	2004	2003	2002	2001
<b>Net asset value, beginning of period <sup>(2)</sup></b>	<b>\$7.79</b>	\$8.68	\$10.10	\$9.35	\$11.16	\$11.60
<b>Increase (decrease) from operations:</b>						
Total revenue	0.06	0.04	0.09	0.15	0.25	0.35
Total expenses	(0.17)	(0.35)	(0.45)	(0.43)	(0.44)	(0.57)
Realized gains (losses) for the period	0.32	(0.17)	0.25	(0.77)	0.66	0.39
Unrealized gains (losses) for the period	0.11	(0.36)	(0.99)	1.91	(2.16)	(0.65)
<b>Total increase (decrease) from operations <sup>(3)</sup></b>	<b>0.32</b>	(0.84)	(1.10)	0.86	(1.69)	(0.48)
<b>Net asset value, end of period <sup>(2)</sup></b>	<b>\$8.10</b>	\$7.79	\$8.68	\$10.10	\$9.35	\$11.16

<sup>1</sup> This information is provided for the six month interim period ended February 28 of the year shown.

<sup>2</sup> Net asset value is based on the actual number of shares outstanding at the relevant times.

<sup>3</sup> The increase (decrease) from operations is based on the weighted average number of shares outstanding over the financial period.

**Ratios and Supplementary Data**

	2006 <sup>(1)</sup>	For the years ended August 31,				
		2005	2004	2003	2002	2001
Net assets (000's)	\$239,280	\$239,685	\$294,089	\$344,042	\$315,318	\$350,996
Number of shares outstanding <sup>(2)</sup>	29,548,283	30,779,619	33,892,055	34,054,870	33,728,363	31,454,434
Management expense ratio <sup>(3)</sup>	4.48%	4.28%	4.61%	4.59%	4.30%	3.70%
Portfolio turnover rate <sup>(4)</sup>	12.06%	15.79%	15.86%	23.39%	8.89%	8.63%
Trading expense ratio <sup>(5)</sup>	0.11%	0.21%	0.31%	0.28%	0.79%	1.87%
Closing market price or pricing NAV <sup>(2)</sup>	\$8.10	\$7.79	\$8.68	\$10.10	\$9.35	\$11.16

<sup>1</sup> This information is provided for the six month interim period ended February 28 of the year shown.

<sup>2</sup> This information is provided as at the last business day in the period shown.

<sup>3</sup> Management expense ratio includes all fees, expenses, capital taxes, and Goods and Services Tax and is expressed as an annualized percentage of the average net assets administered during the period.

<sup>4</sup> The Fund's portfolio turnover rate indicates how active the Fund's portfolio advisor manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher a fund's portfolio turnover rate in a year, the greater the trading costs payable by the fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of a fund.

<sup>5</sup> The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net assets during the period.



**2006 INTERIM MANAGEMENT REPORT OF FUND PERFORMANCE  
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**Management Fees**

The management fee is based on 3% of the daily net asset value calculated and charged monthly in arrears. The services received in exchange for the management fee are as follows:

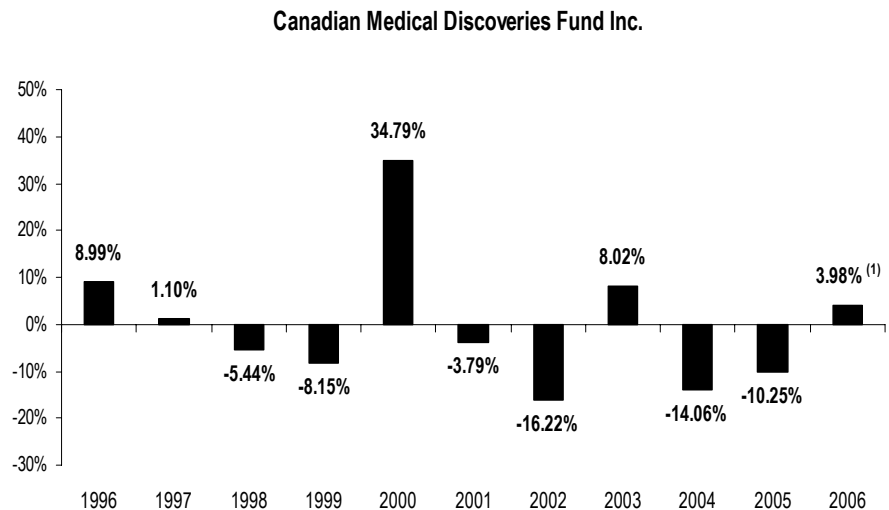
- Provision of office facilities and personnel, financial reporting, marketing, registrar, transfer agency and other shareholder administrative services;
- Retention and supervision of investment advisors;
- Assistance with the formulation and refinement of the investment objectives, restrictions, policies and procedures of the Fund as well as the identification and evaluation of potential eligible investments, the negotiation of the terms and conditions attributable to the investments, the monitoring of the business and financial performance of the investments and the provision of management assistance and advice to the investments as may be considered necessary;
- Preparation and filing of all prospectus documents, information documents, notices and other material in connection with the meetings of shareholders of the Fund.

**PAST PERFORMANCE**

The performance information shown does not take into account sales, redemption, distribution or other optional charges that would have reduced returns on performance. The Fund's past performance is no guarantee of how it will perform in the future.

**Year-by-Year Returns (%)**

The following bar chart shows the Fund's performance for the interim period ended February 28, 2006 and for the years ended August 31 up to 2005. The chart illustrates how the Fund's performance has changed from year to year. The bar chart shows in percentage terms, how much the net asset value per share (NAVPS) on September 1st (the first day of the Fund's financial year) would have increased or decreased by February 28<sup>th</sup> (the last day of the Fund's interim period) or August 31 (the last day of the Fund's financial year).



<sup>1</sup> This information is provided for the six month interim period ended February 28, 2006. All other data points represent year-by-year returns for the years ended August 31.

**SUMMARY OF INVESTMENT PORTFOLIO**

Below is a summary of the Fund's investment portfolio as at February 28, 2006.

Industry Class	Number of Companies	Cost of	% of Total	Fair Value of	% of Total
		Venture Investments \$	Venture Investments at cost %	Venture Investments \$	Venture Investments at Fair Value %
Drug Discovery & Development	24	85,525	37.0%	78,173	37.3%
Medical Equipment & Devices	13	55,696	24.1%	60,916	29.1%
Health Care Delivery and Information Technology	3	6,583	2.9%	20,994	10.0%
Intellectual Property and Early Stage	15	76,915	33.3%	44,021	21.0%
Other	1	6,300	2.7%	5,453	2.6%
	<b>56</b>	<b>231,019</b>	<b>100.0%</b>	<b>209,557</b>	<b>100.0%</b>



**2006 INTERIM MANAGEMENT REPORT OF FUND PERFORMANCE  
CANADIAN MEDICAL DISCOVERIES FUND INC.**

**SUMMARY OF INVESTMENT PORTFOLIO – cont'd**

Stage of Development	Number of Companies	Cost of Venture Investments \$	% of Total Venture Investments at cost	Fair Value of Venture Investments \$	% of Total Venture Investments at Fair Value
			%		%
Seed	8	54,081	23.4%	42,832	20.4%
Early	27	91,366	39.6%	88,401	42.2%
Late	8	49,269	21.3%	25,669	12.3%
Public	13	36,303	15.7%	52,655	25.1%
	56	231,019	100.0%	209,557	100.0%

TOP 25 POSITIONS AS A PERCENTAGE OF THE NET ASSET VALUE

INVESTMENT	SECTOR CLASSIFICATION
Cash and Short-Term Investments	Cash and Short-Term Investments
Systems Xcellence Inc.	Health Care Delivery & IT
University Medical Discoveries Inc.	Intellectual Property & Early Stage
TM Bioscience Corporation	Drug Discovery & Development
GeminX Biotechnologies Inc.	Drug Discovery & Development
MedTech Partners Inc.	Intellectual Property & Early Stage
MedInnova Partners Inc.	Intellectual Property & Early Stage
ActivBiotics (Ontario) Inc.	Drug Discovery & Development
Excel-Tech Ltd. [preference shares]	Health Care Delivery & IT
Ambit Bioscience (Canada) Corporation	Drug Discovery & Development
Viron Therapeutics Inc.	Drug Discovery & Development
Canadian Medical Discoveries Fund II Inc.	Other
Renovis Inc.	Drug Discovery & Development
Praxim Corporation	Medical Equipment & Devices
Xillix Ltd.	Medical Equipment & Devices
IsoTis S.A.	Medical Equipment & Devices
Aegera Therapeutics Inc.	Drug Discovery & Development
Resonant Medical Technologies Inc.	Medical Equipment & Devices
Painceptor Pharma (Ontario) Corporation	Drug Discovery & Development
NeuroMed Pharmaceuticals Inc.	Drug Discovery & Development
Targanta Therapeutics Inc.	Drug Discovery & Development
Twinstrand Therapeutics Inc.	Drug Discovery & Development
ViOptix Canada Inc.	Medical Equipment & Devices
Trillium Therapeutics Inc.	Drug Discovery & Development
Excel-Tech Ltd. [variable rate convertible loan due April 20, 2006]	Health Care Delivery & IT

**TOP 25 HOLDINGS AS A PERCENTAGE OF TOTAL NET ASSETS**

**76.5%**

The summary of investment portfolio may change due to ongoing portfolio transactions of the Fund. A quarterly update is available by calling 1-866-299-7929, writing to BCE Place, 181 Bay Street, Suite 3740, P.O. Box 750, Toronto, ON, M5J 2T3, or by visiting [www.cmdf.com](http://www.cmdf.com).



**2006 INTERIM FINANCIAL STATEMENTS**  
**CANADIAN MEDICAL DISCOVERIES FUND INC.**



**Canadian Medical Discoveries Fund Inc.**

Incorporated under the laws of Canada

**STATEMENTS OF FINANCIAL POSITION (Unaudited)**

[in thousands of dollars, except share and per share amounts]

<i>As at</i>	February 28, 2006 \$	August 31, 2005 \$
<b>ASSETS</b>		
Venture investments, at estimated fair value	209,557	213,735
Marketable securities, at estimated fair value	23,012	20,999
Cash	2,436	1,677
Accrued interest receivable	3,538	3,453
Prepaid expenses and other receivables	612	739
Amounts receivable for securities sold	344	5
Amounts receivable for portfolio assets sold	1,755	870
Income taxes receivable	—	8
	<b>241,254</b>	<b>241,486</b>
<b>LIABILITIES</b>		
Accrued expenses	1,397	1,552
Amounts payable for securities redeemed	506	199
Income taxes payable	6	—
Other accrued liabilities	65	50
	<b>1,974</b>	<b>1,801</b>
<b>Net assets</b>	<b>\$239,280</b>	<b>\$239,685</b>
<b>Class A shares outstanding</b>	<b>29,548,283</b>	<b>30,779,619</b>
<b>Net asset value per Class A share</b>	<b>\$8.10</b>	<b>\$7.79</b>

See accompanying notes

On behalf of the Board:

Director  
Gordon A. McMillan

Director  
Steven J. Hawkins



Canadian Medical Discoveries Fund Inc.

**STATEMENTS OF OPERATIONS** (Unaudited)

[in thousands of dollars, except share and per share amounts]

For the Six Months Ended February 28,	2006	2005
	\$	\$
<b>INVESTMENT INCOME</b>		
Interest income from marketable securities	334	701
Interest income from venture investments	758	122
Dividend income	370	—
Other income	288	67
	<b>1,750</b>	<b>890</b>
<b>EXPENSES</b>		
Management fees	3,674	4,686
Administration fees	1,034	1,264
Audit and related fees	124	100
Legal fees	136	38
Administrative expenses	155	205
Directors fees and expenses	48	13
Custodian fees	24	25
Capital tax expense	15	—
Other expenses	—	67
	<b>5,210</b>	<b>6,398</b>
<b>Net operating loss before income taxes</b>	<b>(3,460)</b>	<b>(5,508)</b>
Provision for income taxes	—	(42)
<b>Net operating loss</b>	<b>(3,460)</b>	<b>(5,550)</b>
<b>Net realized gain (loss) on</b>		
Venture investments	9,725	927
Foreign exchange	(59)	—
<b>Net change in unrealized appreciation (depreciation) of</b>		
Venture investments	3,185	(942)
<b>Net gain (loss) on investments</b>	<b>12,851</b>	<b>(15)</b>
<b>Increase (decrease) in net assets from operations</b>	<b>\$9,391</b>	<b>\$(5,565)</b>
<b>Per Class A share</b>		
Net operating loss	(0.11)	(0.17)
Net gain on investments	0.43	—
<b>Total results of operations</b>	<b>\$0.32</b>	<b>\$(0.17)</b>

See accompanying notes



Canadian Medical Discoveries Fund Inc.

**STATEMENTS OF CHANGES IN NET ASSETS** (Unaudited)

[in thousands of dollars, except share and per share amounts]

For the Six Months Ended February 28,

2006

2005

\$

\$

---

**Net assets, beginning of period**

239,685

294,089

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**Changes during the period**

**Operating activities**

Increase (decrease) in net assets from operations

9,391

(5,565)

---

**Capital transactions**

Proceeds from issue of Class A shares

1,249

4,493

Amounts paid for Class A shares redeemed

(10,896)

(16,005)

Commissions and other costs on the issue of Class A shares

(149)

(368)

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(9,796)

(11,880)

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**Net assets, end of period**

\$239,280

\$276,644

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*See accompanying notes*



Canadian Medical Discoveries Fund Inc.  
**STATEMENTS OF CASH FLOWS** (Unaudited)  
[in thousands of dollars]

For the Six Months Ended February 28,	2006 \$	2005 \$
<b>OPERATING ACTIVITIES</b>		
Net operating loss	<b>\$(3,460)</b>	<b>\$(5,550)</b>
Proceeds on disposal of venture investments	<b>28,996</b>	1,767
Purchase of venture investments	<b>(11,969)</b>	(40,782)
Proceeds on disposal of marketable securities	<b>18,028</b>	133,438
Purchase of marketable securities	<b>(20,040)</b>	(76,568)
Net change in non-cash working capital balances related to operations	<b>(1,000)</b>	449
<b>Cash provided by operating activities</b>	<b>10,555</b>	12,754
<b>FINANCING ACTIVITIES</b>		
Proceeds from issue of Class A shares	<b>1,249</b>	4,493
Amounts paid for Class A shares redeemed	<b>(10,896)</b>	(16,005)
Commissions and other share issuance costs	<b>(149)</b>	(368)
<b>Cash used in financing activities</b>	<b>(9,796)</b>	(11,880)
<b>Net increase in cash during the period</b>	<b>759</b>	874
Cash, beginning of period	<b>1,677</b>	1,600
<b>Cash, end of period</b>	<b>\$2,436</b>	<b>\$2,474</b>
<b>Non-cash investment transactions excluded from statements of cash flows</b>		
Security conversions	—	16,234
Security exchanges	—	8,995
Venture income settled in securities	—	66
	—	<b>\$25,295</b>

See accompanying notes



Canadian Medical Discoveries Fund Inc.  
**STATEMENT OF INVESTMENT PORTFOLIO** (Unaudited)  
[in thousands of dollars]

As at February 28,

2006

**Venture Investments**

% \$

**Drug discovery and development - at cost**

ActivBiotics (Canada) Inc. [9,727,666 preference shares]	6,178
AdipoGenix (Canada) Inc. [10 common shares]	—
AdipoGenix (Canada) Inc. [\$3,041, 8% debenture due upon demand]	3,041
Adavance Technologies Inc. [3,290,514 preference shares; 3,161,874 warrants]	1,810
Aegera Therapeutics Inc. [441,113 common shares; 5,029,616 preference shares]	5,573
Ambit Bioscience (Canada) Corporation [4 common shares; 11,628,107 non-voting preference shares]	6,081
AnorMED Inc. [103,218 common shares]	302
Cytochroma Inc. [1,100,000 preference shares]	1,700
Cytochroma Inc.[\$1,452, 12% convertible debenture due October 12, 2006]	1,452
DC Bio Corp. [7,515 common shares; 2,700,000 preference shares]	2,707
Gemin X Biotechnologies Inc. [7,666,824 preference shares; 408,117 warrants]	9,339
Inimex Pharmaceuticals Inc. [4,900,038 preference shares]	—
Inimex Veterinary Research Ltd. [4,900,038 preference shares]	2,000
MethylGene Inc. [709,699 common shares]	2,900
Neurocrine Biosciences, Inc. [847 warrants]	—
NeuroMed Pharmaceuticals Inc. [2,681,291 preference shares; 1,560 options]	—
NeuroMed Pharmaceuticals Ltd. . [ 2,681,291 preference shares; 2,681,291 special voting shares]	4,589
NPS Pharmaceuticals Inc. [6,900 common shares; 27,396 options]	105
Painceptor Pharma (Ontario) Corporation [7,361,751 preference shares; 4,177,154 special voting shares; 4,177,154 exchangeable shares]	4,526
PharmAthene Canada Inc. [2,591,654 preference shares; 1,243,994 warrants]	2,907
Phytogen Life Sciences Inc. [1,448,090 preference shares; 18,751 options]	5,869



**STATEMENT OF INVESTMENT PORTFOLIO** (Unaudited) - cont'd

[in thousands of dollars]

As at February 28,

Venture Investments	2006	
	%	\$
<b>Drug discovery and development - at cost [cont'd]</b>		
Star Bio Investments Inc. [158,580 common shares]		3,960
Targanta Therapeutics Inc. [ 1,550,000 common shares; 2,156,808 preference shares]		3,250
Targanta Therapeutics Inc. [\$1,750, 8% convertible promissory note, due October 24, 2006]		2,043
Targanta Therapeutics Inc. [\$291, 8% convertible promissory note, due September 15, 2006]		291
Transition Therapeutics Inc. [3,686,967 common shares]		2,048
Trillium Therapeutics Inc. [1,000,000 common shares; 1,879,699 preference shares; 563,910 warrants]		3,270
Twinstrand Therapeutics Inc. [2,166,520 preference shares; 662,110 warrants]		3,584
Viron Therapeutics Inc. [\$6,000, 12% convertible debenture due December 31, 2006]		6,000
<b>Drug discovery and development – at cost</b>	<b>37.0</b>	<b>85,525</b>
Unrealized depreciation		(7,352)
<b>Drug discovery and development – at estimated fair value</b>	<b>37.3</b>	<b>78,173</b>



**Canadian Medical Discoveries Fund Inc.**

**STATEMENT OF INVESTMENT PORTFOLIO** (Unaudited) - cont'd

[in thousands of dollars]

**As at February 28,**

**Venture Investments**

	<b>2006</b>	
	%	\$
<b>Medical equipment and devices - at cost</b>		
Agrisoma Bioscience Inc. [673,638 common shares]		2,164
Excel-Tech Ltd. [582,524 preference shares]		3,000
Excel-Tech Ltd. [\$3,250, variable rate convertible loan due April 20, 2006]		3,250
IDx Inc. [92,500 common shares; 92,500 preference shares]		926
IDx Inc. [\$1,925, floating rate convertible debenture due December 31, 2007]		1,925
IsoTis S.A. [2,956,637 common shares; 13,471 options]		8,065
Praxim Corporation [191,557 preference shares; 191,556 warrants]		5,000
Protiva Biotherapeutics Inc. [16,099,980 preference shares; 410,714 warrants]		3,221
Protiva Biotherapeutics Inc. [\$900, 15% convertible debenture due August, 2005]		900
Protiva Biotherapeutics Inc. [\$379, 15% Promissory Note due March 31, 2006]		379
Renovis Inc. [204,142 common shares]		2,733
Resonant Medical Inc. [235,849 preference shares]		500
Resonant Medical Technologies Inc. [797,872 preference shares; 1,179,245 exchangeable shares]		4,375
SMC Ventures Inc. [622,450 common shares]		—
Spectral Diagnostics Inc. [196,078 common shares; 240,625 warrants]		500
Tm Bioscience Corporation [5,828,804 common shares; 6,446 options; 1,421,919 warrants]		8,381
ViOptix Canada Inc. [9,104,524 preference shares]		3,385
ViOptix Canada Inc. [\$1,991, 8% convertible debenture due October 11, 2014]		1,992
Xillix Ltd. [\$5,000, variable rate convertible debenture due December 31, 2010]		5,000
<b>Medical equipment and devices – at cost</b>	<b>24.1</b>	<b>55,696</b>
Unrealized appreciation		5,220
<b>Medical equipment and devices – at estimated fair value</b>	<b>29.1</b>	<b>60,916</b>



Canadian Medical Discoveries Fund Inc.

**STATEMENT OF INVESTMENT PORTFOLIO** (Unaudited) - cont'd

[in thousands of dollars]

As at February 28,

**Venture Investments**

	2006	
	%	\$
<b>Health care delivery - at cost</b>		
Life Mark Health Limited Partnership [33,030 units]		330
Network Health Inc. [707,681 common shares; 18,667 option]		1,284
Systems Xcellence Inc. [5,140,345 common shares]		4,969
<b>Health care delivery - at cost</b>	<b>2.9</b>	<b>6,583</b>
Unrealized appreciation		14,411
<b>Health care delivery - at estimated fair value</b>	<b>10.0</b>	<b>20,994</b>
<b>Intellectual property and early stage - at cost</b>		
BioMarin Delivery Canada Inc. [499,580 exchangeable shares]		—
Future Link Life Sciences and Emerging Technologies Venture Fund Inc. [300,000 common shares]		3,000
Golden Horseshoe Life Sciences and Emerging Technologies Venture Fund Inc. [300,000 common shares]		3,000
Hemosol Corp. [1 common share]		—
Kuratik Inc. [10 common shares]		—
LPBP Inc. [350,331 common shares]		—
London Health Care and Converging Technology Venture Fund Inc. [300,000 common shares]		3,000
MedInnova Partners Inc. [50,000 common shares; 10,500,000 non-voting preference shares]		10,500
MedTech Partners Inc. [50,000 common shares; 13,000,000 non-voting preference shares]		13,000
MEF Finance Corp. [50 common shares]		50
Neuroscience Development Inc. [50,000 common shares; 1,700,000 non-voting preference shares]		1,750
Protana Inc. [11,259,581 preference shares]		20,784
T <sup>2</sup> C <sup>2</sup> /Bio Limited Partnership [5,000 limited partnership units]		4,931
University Medical Discoveries Inc. [1,000,000 common shares; 149,000,000 non-voting preference shares]		14,900
Working Ventures CMD F Queen's Scientific Breakthrough Fund Inc. [200,000 preference shares]		2,000
<b>Intellectual property and early stage - at cost</b>	<b>33.3</b>	<b>76,915</b>
Unrealized depreciation		(32,894)
<b>Intellectual property and early stage - at estimated fair value</b>	<b>21.0</b>	<b>44,021</b>



Canadian Medical Discoveries Fund Inc.

**STATEMENT OF INVESTMENT PORTFOLIO** (Unaudited) - cont'd

[in thousands of dollars]

As at February 28,	2006	
Venture Investments	%	\$
<b>Other - at cost</b>		
Canadian Medical Discoveries Fund II Inc. <sup>[2]</sup> [669,109 non-voting Class C, Series I shares]	2.7	6,300
Unrealized depreciation		(847)
<b>Other – at estimated fair value</b>	<b>2.6</b>	<b>5,453</b>
<b>Venture investments - at cost</b>	<b>100.0</b>	<b>231,019</b>
Unrealized depreciation of venture investments		(21,462)
<b>Venture investments - at estimated fair value <sup>[1]</sup></b>	<b>100.0</b>	<b>209,557</b>
<b>[1] Venture investments - at estimated fair value is comprised of</b>		
Public companies		52,655
Private companies		156,902
		<b>209,557</b>

<sup>[2]</sup> Canadian Medical Discoveries Fund II Inc. is sponsored and managed by the same parties as the Fund.

As at February 28, 2006	Cost	Par value	Fair value
Marketable securities	\$	\$	\$
<b>Short Term investments</b>			
<b>Issuer</b>			
Lancaster Short Term Bank Fund	23,012	23,012	23,012
<b>Total marketable securities - at estimated fair value</b>	<b>23,012</b>	<b>23,012</b>	<b>23,012</b>
<b>Total investments - at estimated fair value</b>			<b>\$232,569</b>
Other assets [consisting of cash, receivables, prepaid expenses and deferred charges less liabilities]			6,711
<b>Net assets</b>			<b>\$239,280</b>

Lancaster Short Term Bank Fund earns interest at variable rates based on actual yield achieved and is redeemable upon demand.

See accompanying notes.



Canadian Medical Discoveries Fund Inc.

## NOTES TO FINANCIAL STATEMENTS

[in thousands of dollars]

### 1. CHANGE CONTROL OF THE MANAGER

Impax Capital Corp., indirectly, acquired all of the issued and outstanding shares of Medical Discovery Management Corp. ("MDMC"), the manager of Canadian Medical Discoveries Fund Inc., and became the sole shareholder of MDMC in January 2006.

### 2. BASIS OF PRESENTATION

Except as disclosed in note 4, these financial statements follow the same accounting policies and methods of application as those used in the audited financial statements for the year ended August 31, 2005 and as such, should be read in conjunction with those audited financial statements.

### 3. MANAGEMENT EXPENSE RATIOS

The management expense ratios, expressed as a percentage of the average net assets administered during the following periods were:

	August 31				
	2005	2004	2003	2002	2001
	%	%	%	%	%
Expenses [including applicable taxes]	4.28	4.61	4.59	4.56	4.60
Provision for performance fees	—	—	—	(0.26)	(0.90)
	4.28	4.61	4.59	4.30	3.70

### 4. COMPARATIVE FINANCIAL STATEMENTS

The Comparative financial statements have been reclassified from statements previously presented to conform to the presentation of the February 28, 2006 financial statements.

### 5. AUDITOR REVIEW

These interim financial statements were approved by the Board of Directors on April 7, 2006, but have not been reviewed by Ernst & Young LLP, the external auditors of the Fund.

