

PYNG MEDICAL CORP.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Three Months Ended December 31, 2009 and 2008

PYNG MEDICAL CORPORATION

Management's Discussion and Analysis

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(Expressed in Canadian Dollars)

Management's Discussion and Analysis ("MD&A") is intended to help the reader understand the significant factors that have affected the Company and its subsidiary's performance and such factors that may affect its future performance. The following discussion and analysis of the operations, results, and financial position of the company for the three months ended December 31, 2009 should be read in conjunction with the audited financial statements for the year ended September 30, 2009 and the related notes therein. The effective date of this report is Feb 24, 2010. All financial information, unless otherwise indicated, are expressed in Canadian dollars. Additional regulatory filings for the Company are available on SEDAR and can be accessed at www.sedar.com or on the company's website at www.pyng.com.

FORWARD-LOOKING STATEMENTS

This MD&A contains forward-looking statements that reflect current view of the Company with respect to future events and financial performance and are subject to certain risks, uncertainties and assumptions. 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.

There are a number of risks and uncertainties that 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, including, but not limited to, change in general economic and political conditions, failure to achieve anticipated revenues and income growth, regulation and competitor change, failure to develop new product and anticipate changes in technology and product requirements, potential for product liability, inadequate protection of intellectual property rights, uncertainty in the future financial conditions and the impact of currency exchange rates and interest rates.

Given these risks and uncertainties, potential investors and readers are urged to consider these factors carefully in evaluating these forward-looking statements and 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.

BUSINESS DESCRIPTION

Pyng Medical Corp. (the "Company" or "Pyng") is a public company incorporated under the British Columbia Business Corporation Act, who maintains an office at Unit 7, 13511 Crestwood Place, Richmond, BC V6V 2E9. The Company's registered and records office is located at 15th Floor, 1055 West Georgia Street, Vancouver, B.C., V6E 4N7. On June 9, 2008, the Company incorporated its wholly owned subsidiary, Pyng Medical USA Corp. in the state of Washington in the U.S.A. to enhance the distribution of its products.

Pyng is a reporting issuer in British Columbia and Alberta. Its common shares are traded on the TSX Venture Exchange under the symbol PYT.

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Pyng is a global medical device company that discovers, develops, manufactures and markets a suite of innovative trauma and resuscitation products that can save lives in seconds. Each product in the portfolio meets the ease of clinician to use, safety, efficacy, and overall competitive value criteria essential for life saving trauma products.

The Company sells its products worldwide directly and through distribution partners to military, hospital, EMS, government agency, and law enforcement customers, primarily in the U.S.A., Europe and Australia. Pyng has expanded its distribution network in 2009 with the addition of a large Hospital focused specialty distributor. This hospital focus plus Pyng's well-established national pre-hospital distributor is the largest US EMS distributor, serving all states and the Department of Defence.

PYNG PRODUCT PORTFOLIO

The **FASTI**® Intraosseous (IO) Infusion System that provides quick vascular access to enable the rapid administration of drugs, medications, fluids, and blood to patients that require emergency life-saving treatment. Pyng has researched, developed and commercialized a proprietary intraosseous infusion system, the Pyng **FASTI**® Intraosseous Infusion System, which has been granted numerous patents in the U.S.A., Mexico, Canada and Europe. The **FASTx**™ next generation Sternal IO with enhanced ease of use, recently received Health Canada clearance for sale and pending FDA 510K as well as European CE Mark.

The **T-POD**® Pelvic Stabilizer device provides immediate treatment of simple and complex pelvic fractures by binding the pelvis to reduce pain, bleeding, or haemorrhage, morbidity, and mortality risks.

The **MAT**® Tourniquet is used "one handed" by the wounded patient or initial responder to quickly and effectively stop life threatening arterial bleeding of any extremity to reduce the risk of limb loss and mortality.

The **CRIC**™ (Complete Rapid Illuminated Cricothyrotomy) is the latest innovative, life-saving medical product to allow for one-handed surgical airway intervention. The **CRIC**™ has received the European CE mark and is being sold outside the North American markets.

HIGHLIGHTS FOR THE THREE MONTHS ENDED DECEMBER 31, 2009

1. In December 2009, the Company shipped its newest product, the **CRIC**™ Cricothyroidotomy Kit into the European market. The **CRIC** provides a rapid, one-handed Cricothyroidotomy solution in a single compact device. The Company has received its first purchase order for the **CRIC** from CIR Medical, a leading medical device distributor in France. The securing of this first **CRIC** order will serve as its introduction into the European marketplace as well as the rest of the world.

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2. The sales for the three months ended December 31, 2009 remained the same level as the last quarter of fiscal 2009 while the medical devices market continued to be severely impacted by global economic pressures.
3. The net income for this quarter was \$30,717, which increased by 67% compared with the same quarter of last year loss \$45,989. The operating expenses decreased by \$108,979, which is 9% less than the same quarter of last year. This improvement was mainly attributable to the downsizing of the Canadian operating team and reflected the Company's continuing efforts on costs saving and expenses control.
4. The cash position and working capital was significantly increased and the operating activities generated improved cash flow compared with the same period of last fiscal year. During this quarter, the Company repaid \$61,328 on its bank loan and made a drawn down of \$197,567 from its credit line to fund operations.

SUBSEQUENT TO DECEMBER 31, 2009

1. On January 28, 2010, the Company received Health Canada regulatory clearance to market its new and improved **FASTx™ Sternal Intraosseous Device**, effective immediately. The **FASTx™ Sternal Intraosseous Device** is indicated for use in establishing a sternal intraosseous access route in adult and adolescent patients (12 years of age and older) that require vascular administration of drugs or fluids to facilitate emergency resuscitation. **FASTx™ Sternal Intraosseous Device** is a rapid, reliable and safe alternative to conventional IV infusion providing lifesaving vascular access for fluid and drug resuscitation in cardiac, shock and trauma victims. The Company's lead clinical product has been re-engineered with an integrated, easy, pull-to-remove infusion tube, light and compact form factor made for single-handed use.
2. On Feb 1, 2010, the Company opened a US sales office in Kirkland, Washington to service the growing demand for Pyng's line of resuscitative care solutions in the United States. The Kirkland office expands the Company's ability to offer sales and support services to its fast growing base of American customers, distribution partners and prospects.
3. In January 2010, the Company Conducted a training session to the international dealers in Milan, Italy on CRIC™ and FASTx™ to prepare for the growing needs of the European emergency market.

STRATEGIC PRIORITY FOR FISCAL 2010

1. Achieve FASTx™ CE and FDA regulatory approval, and launch product.
2. Develop a strong US presence
 - Aggressively pursue US Congressional funding for new product opportunities
 - Open US sales office

3. Diversify civilian market mix to 30% of revenue.
4. Develop EMEA (Europe, Middle East, Africa)
 - Execute a European physical distribution warehouse to cut costs and improve access for Pyng products in Europe.
5. Develop a second generation MAT® product.
6. Invest in people resources for revenue and portfolio growth
 - Key employee retention
7. Continue efforts to appropriately capitalize the Company

RESULTS OF OPERATIONS

Revenues

The Company's sales for the three months ended December 31, 2009 were \$1,585,684 (2008: \$1,633,985), resulting in a 2.95% decrease in sales over the same period in fiscal 2009. Our flagship product the **FASTI**® Intraosseous Infusion System is still the largest selling Sternal IO System with over 12,836 units shipped during this quarter.

Gross Margin

Gross margin for the three months ended December 31, 2009 was \$1,132,906 (2008 - \$1,165,152), a decrease of \$32,246 compared with the same period of 2008. The gross margin as a percentage of revenues for these three months was 71%, which remained constant with the same period of last year. Cost of sales for this quarter was \$452,778 (2008 - \$468,833), which was consistent with the sales volume.

Expenses

The expenses for the three months ended December 31, 2009 totalled \$1,102,217, which has decreased by \$108,924 compared to the amount of \$1,211,141 for the same quarter for 2009. On a percentage basis, expenses decreased from 74% of sales for the quarter ended December 31, 2008 to 69% for the three months ended December 31, 2009. The four largest expense items are wages and benefits of \$574,519, travel of \$92,875, consulting fees of \$75,619, professional fees of \$60,976. These items comprise approximately 73% of the total expenses of the Company.

Wages and benefits accounted for \$574,519 (2008 - \$604,675), or approximately 52%, of the total expenses, which decreased by \$30,516 compared with the same quarter of last year. These expenses include the base salaries and wages, bonus expenses and other benefits for the employees.

Travel expenses amounted to \$92,875 (2008 - \$121,410), representing 8% of the total expenses, which covered the travel expenses for all employees, consultants and sales team.

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Consulting fees amounted to \$75,619 (2008 - \$118,599), or approximately 7%, of the total expenses, which include the consulting fees paid for financing, marketing, and regulatory services.

Professional fees of \$60,976 (2008 - \$89,843) decreased by 32% compared with the same quarter of 2008, which was comprised of legal fees \$44,762, investor relations \$1,214, and accounting and auditing fees of \$15,000, which was accrued for the annual audit.

Net Income

Net income for the three months ended December 31, 2009 was \$30,717, an increase of \$76,706 compared to loss \$45,989 for the same quarter last year. The significant improvement was mainly attributable to the downsizing of the Canadian operating team and reflected the Company's continuing efforts on costs saving and expenses control.

SUMMARY OF QUARTERLY RESULTS

The following table sets out selected quarterly information for the last eight quarters.

	Dec. 31	Sep. 30	Jun. 30	Mar. 31	Dec. 31	Sep. 30	Jun. 30	Mar. 31
	2009	2009	2009	2009	2008	2008	2008	2008
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Total sales	\$ 1,585,684	\$ 1,718,272	\$ 1,288,743	\$ 1,385,177	\$ 1,633,985	\$ 2,168,645	\$ 1,624,967	\$ 1,444,769
Gross margin	1,132,906	1,302,238	900,292	972,948	1,165,152	1,565,198	1,159,555	1,010,766
Expenses	1,102,161	1,263,709	1,001,810	1,110,874	1,211,140	889,263	1,061,982	872,044
Net income (loss)	30,717	38,529	(101,518)	(137,926)	(45,989)	16,111	97,573	138,722
Earning (loss) per share	\$ 0.00	\$ 0.00	\$ (0.01)	\$ (0.01)	\$ (0.00)	\$ 0.01	\$ 0.01	\$ 0.01

LIQUIDITY AND SOLVENCY

The Company's principal sources of liquidity are cash provided by operations, borrowing under a bank loan and line of credit, and issuance of convertible debentures. The Company's short-term cash requirements are primarily to fund working capital and invest in product development and intangible assets for growth initiatives. Cash has also been used to finance acquisition and other long-term strategic business initiatives.

To manage the company's liquidity risk, customer credit evaluations are based on information obtained from trade references, bank reports, and periodic review of customers' payment patterns to ensure irregularities are addressed promptly. The Company also acquires accounts receivable insurance coverage from Export Development Canada to mitigate collection risks.

Cash Position

As at December 31, 2009, the Company had cash of \$383,889, representing an increase of \$224,375 compared with the three months ended December 31, 2008.

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The Company generated strong cash flows of \$355,989 from operating activities in this quarter, compared to a use of cash \$209,528 in the same quarter of last year. During this quarter, the Company withdrew \$197,567 from its line of credit and paid back \$61,328 on the bank loan principle.

Expenditures on product development and other intangible assets in the ordinary course of business for this quarter amounted to \$251,499 (2008 - \$533,591).

Working Capital

As at December 31, 2009, the Company had a working capital of \$473,849, an increase of \$710,038 from \$-236,188 as at December 31, 2008. This increase was largely due to the expenses reduction and increase in accounts payable, non-cash expenses of stock-based compensation and accreted interest expense on convertible debentures.

RELATED PARTY TRANSACTIONS

Related party transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

1. Payment to directors

During the three months ended December 31, 2009, consulting fees of \$24,881 (2008 - \$37,125) and directors fees of \$13,019 (2008 - \$24,049) were paid or accrued to the directors of the Company.

As at December 31, 2009, \$28,011 (2008 - \$29,249) was owing to directors for consulting fees and expense reimbursements. The amount is included in accounts payable.

2. Contractual commitments with directors

As at December 31, 2009, the Company did not have any contractual commitments.

OFF SHEET BALANCE SHEET ARRANGEMENTS

The Company has not entered into any off-balance sheet arrangements.

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions which affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses for the periods reported. These estimates are reviewed periodically and, as adjustments become necessary, they are reported in operations in the period in which they become known.

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We have identified the following as critical accounting estimates, which are defined as those that are reflective of significant judgments and uncertainties, are the most pervasive and important to the presentation of our financial condition and results of operations and could potentially result in materially different results under different assumptions and conditions.

Property and Equipments

Property and equipment are recorded at cost. Amortization is provided over the estimated useful lives of the assets, commencing when the asset is put into use. The useful lives are estimated and the re-evaluated each reporting period. The carrying values are regularly reviewed for recoverability or whenever events or circumstances indicate that these amounts exceed their fair values. If the undiscounted amount of the future cash flows is less than the carrying amount of the assets, an impairment is recognized for the difference between the carrying amount of the assets and its estimated fair value based on the discounted net future cash flow or quoted market prices. As at Feb 23, 2010, there has been no impairment loss recognized.

Stock-based Compensation

The fair value of each share purchase option grant is estimated on the date of the grant using the Black-Scholes option-pricing model. The amount of share-based compensation associated with any share purchase options that are granted will be estimated and expensed, based on the vesting schedule, using assumptions involving the estimated dividend yield, expected volatility, the risk-free interest rate and the expected lives of the share purchase options. See Note 17(e) to the audited consolidated financial statements for the year ended September 30, 2009.

Income taxes

The Company accounts for income taxes using the asset and liability method of accounting. Under this method, future income tax assets and liabilities are determined based on differences between the carrying amounts of balance sheet items and their corresponding tax values and loss carry-forwards. The determination of the income tax provision requires management to interpret regulatory requirements and to make certain judgments. While income tax filings are subject to audits and assessments, Management believes that adequate provision has been made for all income tax obligations. However, changes in the interpretations or judgments may result in an increase or decrease in the income tax provision in the future. The amount of any such increase or decrease cannot be reasonably estimated.

CHANGE IN ACCOUNTING POLICIES

Inventories

In June 2007, the CICA issued Section 3031, "Inventories", which requires inventory to be measured at the lower of cost and net realizable value and which includes guidance on the determination of cost, including allocation of overheads and other costs to inventory. Further, it requires the reversal of previous write-downs to net realizable value when the economic circumstances have changed to support an

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increased inventory value. This standard was effective for fiscal years beginning on or after January 1, 2008. This section had no material impact on the Company's financial position or results of operations.

Financial Instruments – Disclosures and Presentation

In March 2007, the CICA issued Section 3862, "Financial Instruments – Disclosures", and Section 3863, "Financial instruments – Presentation", which together comprise a complete set of disclosure and presentation requirements that revise and enhance current disclosure requirements for financial instruments. These sections apply to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007. Section 3862 requires disclosure of additional detail by financial asset and liability categories. Section 3863 establishes standards for presentation of financial instruments and non-financial derivatives. It deals with the classification of financial instruments, from the perspective of the issuer, between liabilities and equity, the classification of related interest, dividends, losses and gains, and the circumstances in which financial assets and financial liabilities are offset. Effective September 30, 2008, the Company implemented these disclosures, although the adoption of these sections did not impact the Company.

Accounting Changes

Effective October 1, 2007, the Company adopted Section 1506, "Accounting Changes", which establishes criteria for changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates and the correction of errors. The disclosure is to include, on an interim and annual basis, a description and the impact on the Company of any new primary source of GAAP that has been issued but is not yet effective. The impact that the adoption of Section 1506 will have on the Company's results of operations and financial condition will depend on the nature of future accounting changes.

Accounting Policy Choice for Transaction Costs

On June 1, 2007, the Emerging Issues Committee of the CICA issued Abstract No. 166, "Accounting Policy Choice for Transaction Costs" ("EIC-166"). This EIC addresses the accounting policy choice of expensing or adding transaction costs related to the acquisition of financial assets and financial liabilities that are classified as other than held-for-trading. Specifically, it requires that the same accounting policy choice be applied to all similar financial instruments classified as other than held-for-trading, but permits a different policy choice for financial instruments that are not similar. The Company had adopted EIC-166 effective September 30, 2008, which required retroactive application to all transaction costs accounted for in accordance with CICA Handbook Section 3855, "Financial Instruments – Recognition and Measurement". The Company had evaluated the impact of EIC-166 and determined that no adjustments were required.

Capital Disclosures

The CICA issued a new accounting standard, Section 1535, "Capital Disclosures", which requires the disclosure of both qualitative and quantitative information that provides users of financial statements with

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information to evaluate the entity's objectives, policies and processes for managing capital. This new section was effective for the Company beginning October 1, 2008.

General Standards of Financial Statement Presentation

The CICA approved amendments to CICA Handbook Section 1400, "General Standards of Financial Statement Presentation". These amendments require management to assess an entity's ability to continue as a going concern. When management is aware of material uncertainties related to events or conditions that may cast doubt on an entity's ability to continue as a going concern, those uncertainties must be disclosed. In assessing the appropriateness of the going concern assumption, the standard requires management to consider all available information about the future, which is at least, but not limited to, twelve months from the balance sheet date. The new requirements of the standard are applicable for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008.

Goodwill and Intangible Assets

On January 8, 2008, the CICA issued Section 3064, "Goodwill and Intangible Assets". Section 3064 establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. Section 3064 is effective for annual and interim financial statements relating to fiscal years beginning on or after October 1, 2008. This section had no material impact on the Company's financial position or results of operations.

Business Combinations

Section 1582, "Business Combinations", applies prospectively to the Company's business combinations on or after January 1, 2011. Early adoption of this recommendation is permitted. This section replaces Section 1581, "Business Combinations", and harmonizes the Canadian accounting standards with International Financial Reporting Standards ("IFRS"). Under the new guidance, the purchase price used in a business combination will be the new fair value of the shares exchanged at their market price on the date of the exchange.

Currently, when shares are issued, they are valued based on the market price for a reasonable period before and after the date the acquisition is agreed upon and announced. Under the new guidelines, all acquisition costs are expensed where currently they are capitalized as part of the acquisition costs. There are also a number of other differences between the new guidelines and current GAAP. The Company does not expect the adoption of this pronouncement to impact the financial statements.

Consolidated Financial Statements and Non-controlling Interests

Section 1601, "Consolidated Financial Statements", and 1602, "Non-Controlling Interests", change the accounting and reporting of ownership in interests in subsidiaries held by parties other than the parent. Non-controlling interests are to be presented in the consolidated statement of financial position (balance sheet) within equity, but separately from the parent's equity. The amount of consolidated net income attributable to the parent and to the non-controlling interest is to be clearly identified and presented on the face of the consolidated statement of operations. In addition, these pronouncements establish standards for a change in a parent's ownership interest in a subsidiary and the valuation of retained non-controlling equity investments when a subsidiary is deconsolidated. They also establish reporting requirements for providing sufficient disclosures that clearly identify and distinguish between the interests of the parent

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and the interest of the non-controlling owners. The Company does not expect the adoption of these pronouncements to impact its financial statements in fiscal 2011.

International Financial Reporting Standards (“IFRS”)

In 2006, the Canadian Accounting Standards Board (“AcSB”) published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five year transitional period. In February 2008, the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada’s own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011, requiring the restatement for comparative purposes of amounts reported by the Company for the year ended December 31, 2010. While the Company has begun assessing and planning the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time. In the fourth quarter ended September 30, 2009 management started to address some of the key elements of such a plan, such as training and identification of tools required in preparing a project work plan, including detailed IFRS policies and their comparison to Canadian GAAP.

FINANCIAL INSTRUMENTS

The Company's financial instruments recognized on the balance sheet consist of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, bank credit facility, loan payable, and convertible debentures.

The Company is exposed in varying degrees to a variety of financial instrument related risks. The Board of Directors approves and monitors the risk management process. The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the Company’s competitiveness and flexibility. The type of risk exposure and the way in which such exposure is managed is provided as follows:

Credit Risk

The Company is exposed to credit risk from accounts receivable. The Company performs certain credit evaluation procedures and does not require collateral for financial instruments subject to credit risk. The Company believes that credit risk is limited because the Company assesses the financial strength of its customers, and based upon factors surrounding the credit risk of its customers, establishes an allowance for uncollectible accounts and, as a consequence, believes that its account receivable credit risk beyond such allowances is limited. The maximum exposure to credit risk is the net carrying value of accounts receivable.

Credit risk also arises from cash and cash equivalents with banks and financial institutions. This risk is limited because the counterparties are mainly Canadian banks with high credit rating.

Foreign Exchange Risk

The Company is subject to currency risk due to the fluctuations of exchange rates amongst the Canadian and U.S. dollars. The majority of sales are in U.S. dollars while the majority of costs are in Canadian dollars. The Company does not use derivative instruments to reduce its exposure to foreign currency risk.

Liquidity Risk

The Company is exposed to liquidity risk as its continued operations are dependent upon the Company realizing its accounts receivable to satisfy its liabilities as they become due. To manage the Company's liquidity risk, customer credit evaluations are conducted based on trade references, bank reports, and periodic review of customers' payment patterns to ensure irregularities are addressed promptly. The Company also acquires accounts receivable insurance coverage to mitigate collection risks.

Interest Rate Risk

Demand loans, bank credit facility and convertible debentures are subject to interest rate cash flow risk as the required cash flow to service the debt will fluctuate as a result of the changing prime interest rate.

INTERNAL CONTROL OVER FINANCIAL REPORTING

The Company's management, with the participation of its CEO and CFO, are responsible for establishing maintaining adequate internal control over financial reporting. Under the supervision of CEO and CFO, the Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles ("GAAP"). The Company's internal control over financial reporting includes policies and procedures that:

1. Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;
2. Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP and that the Company's receipts and expenditures are made only in accordance with authorization of management and the Company's directors; and
3. Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the annual or interim financial statements.

OUTSTANDING SHARE DATA

Share Capital

The Company has 100,000,000 authorized common shares without par value. As at Feb 24, 2010, there are 12,001,583 common shares issued and outstanding.

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	Number of Shares	Amount		Contributed Surplus
Balance, September 30, 2007	13,691,583	\$ 7,812,892	\$	333,854
Shares issued on exercise of stock options	60,000	31,832		(6,632)
Escrow shares cancelled and returned to treasury	(1,750,000)	-		-
Fair value of options issued	-	-		105,350
Fair value of warrants issued	-	-		41,823
Balance, September 30, 2008	12,001,583	\$ 7,844,724	\$	474,395
Fair value of options issued				75,361
Fair value of warrants issued				2,725
Balance, September 30, 2009	12,001,583	\$ 7,844,724	\$	552,481
Fair value of options issued				21,798
Balance, December 31, 2009	12,001,583	\$ 7,844,724	\$	574,279
Balance, February 24, 2010	12,001,583	\$ 7,844,724	\$	574,279

Stock Options

At September 30, 2009 and 2008, the Company had a rolling stock option plan, which follows the policies of the TSX Venture Exchange ("TSXV") regarding stock option awards granted to employees, directors and consultants. The stock option plan allows a maximum of 10% of the issued shares to be reserved for issuance under the plan.

The Company's stock options vest as follows: 1/3 six months after the date of grant, 1/3 twelve months after the date of grant, and 1/3 eighteen months after the date of grant.

As at February 24, 2010, the following stock options were outstanding:

Options Outstanding			Options Exercisable
Number of Options	Exercise Price	Expiring Date	Number of Options
275,000	\$ 0.45	23-May-11	275,000
20,000	\$ 0.43	16-Jul-11	20,000
20,000	\$ 0.42	14-Aug-11	20,000
10,000	\$ 0.34	21-Aug-11	10,000
60,000	\$ 0.35	12-Dec-11	60,000
81,200	\$ 0.23	10-May-13	27,067
60,000	\$ 0.56	12-Jun-13	60,000
60,000	\$ 0.41	8-Sep-13	60,000
50,000	\$ 0.20	18-May-14	16,667
300,000	\$ 0.23	19-Jul-14	100,000
30,000	\$ 0.17	10-Aug-14	10,000
80,000	\$ 0.20	15-Nov-14	-
1,046,200			658,733

The fair value of stock options granted was estimated on the date of the grant using the Black-Scholes option-pricing model and is amortized over the vesting period of the underlying options with the following weighted-average assumptions used for options granted:

Dividend yield	Nil
Expected volatility	86% - 87%
Risk-free interest rate	3.72%
Expected life	4 - 5 years

Warrants

On August 10, 2009, the Company issued 2,725,000 common share purchase warrants at \$0.001 per warrant as part of the convertible debt financing agreements. Each warrant is exercisable to purchase one common share of the Company at \$0.22 per share until the date the loan is repaid or no later than August 10, 2014.

On June 6, 2008, the Company issued 110,000 common share purchase warrants at an exercise price of \$0.55 as part of a financing agreement. Each warrant is exercisable to purchase one common share of the Company until the date the loan is repaid or no later than June 6, 2013.

The fair value attributed to the warrants was \$41,823, estimated using the Black-Scholes model with the following weighted-average assumptions:

Dividend yield	Nil
Expected volatility	85%
Risk-free interest rate	3.72%
Expected life	5 years

As at February 24, 2010, the following warrants were outstanding:

Number of Warrants	Exercise Price	Expiring Date
110,000	\$ 0.55	6-Jun-13
2,725,000	\$ 0.22	10-Aug-14
2,835,000		

Escrow Shares

As at Feb 24, 2010, 900,000 (2008 – 1,500,000) shares were held in escrow to be released pro-rata over a three year period in accordance with TSX Venture Exchange policies.

ECONOMIC DEPENDANCE

The Company presently derives a substantial amount of its revenue from one distributor which contributed approximately 76% (2008 - 73%) of revenue for the three months ended December 31, 2009. The sales are made to the distributor under a distributorship agreement. The non-renewal or cancellation of the contract could have a material adverse short-term impact on the Company. Amounts owing from one distributor comprised 69% (2008 - 74%) of the accounts receivable balance at December 31, 2009.

CONTINGENCIES

During the fiscal year 2009, the Company was made aware of a potential legal claim arising in the ordinary course of business. However, in the opinion of management, it is probable that the Company could be liable for an amount up to \$60,573 (US\$56,494). As such, a decision was made to make a provision for the amount of \$60,573 (US\$56,494) has been recorded in accrued liabilities and as at February 23, 2010, there have been no legal proceedings filed against the Company.

COMMITMENTS

The Company has a five-year lease commitment on its Richmond production premises. The Company is required to pay base rent of \$4,337 per month for the first two years and \$4,457 per month for the last three years. The lease expires on September 30, 2011.

RISKS AND UNCERTAINTIES

For the Company's risk factors, see the risks identified in the forward-looking information section above, and refer to the risk factors section of the Company's press releases, all filed with the Canadian securities regulators, which is available on SEDAR at www.sedar.com