

PYNG MEDICAL



*Saving lives by saving time
through innovation in resuscitation*

Report for the Fiscal Year Ended September 30, 2008

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PYNG MEDICAL CORP.

CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2008 AND 2007



AUDITORS' REPORT

To the Shareholders of
Pyng Medical Corp.

We have audited the consolidated balance sheets of Pyng Medical Corp. as at September 30, 2008 and 2007, and the consolidated statements of income and deficit, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at September 30, 2008 and 2007, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Vancouver, Canada

November 21, 2008

"Morgan & Company"

Chartered Accountants

PYNG MEDICAL CORP.
CONSOLIDATED BALANCE SHEETS

	SEPTEMBER 30	
	2008	2007
ASSETS		
Current		
Cash and cash equivalents	\$ 595,955	\$ 637,284
Restricted cash (Note 5)	159,630	-
Short-term investments	-	150,000
Accounts receivable	1,339,967	1,038,498
Inventories (Note 6)	318,017	173,623
Prepaid expenses	136,185	35,768
	2,549,754	2,035,173
Deferred Product Development Costs (Note 7)	2,345,684	2,027,876
Equipment (Note 8)	215,291	151,271
Patents (Note 9)	169,833	129,599
Intellectual Property Rights (Note 10)	2,550,786	-
Future Income Tax Assets (Note 15)	-	381,000
	\$ 7,831,348	\$ 4,724,919
LIABILITIES		
Current		
Accounts payable	\$ 495,386	\$ 175,410
Accrued liabilities	1,474,869	256,207
Current portion of loan payable (Note 13)	218,488	-
Capital lease obligation	-	14,785
	2,188,743	446,402
Loan Payable (Note 13)	714,190	-
Future Income Tax Liabilities (Note 15)	168,000	-
	3,070,933	446,402
SHAREHOLDERS' EQUITY		
Share Capital (Note 14)	7,844,724	7,812,892
Contributed Surplus (Note 14)	474,395	333,854
Deficit	(3,558,704)	(3,868,229)
	4,760,415	4,278,517
	\$ 7,831,348	\$ 4,724,919

Approved on behalf of the Board of Directors:

“Michael Jacobs”
Director

“David Christie”
Director

The accompanying notes are an integral part of these consolidated financial statements.

PYNG MEDICAL CORP.

CONSOLIDATED STATEMENTS OF INCOME AND DEFICIT

	YEARS ENDED SEPTEMBER 30	
	2008	2007
Sales	\$ 6,549,588	\$ 4,807,705
Cost Of Sales	1,949,139	1,479,856
Gross Margin	4,600,449	3,327,849
Expenses		
Advertising and promotion	96,868	97,886
Amortization of deferred product development costs	286,280	208,938
Amortization – other	84,415	73,458
Consulting and commissions	575,841	395,504
Foreign exchange (gain) loss	(62,762)	128,782
Interest, bank charges and finance fees	100,658	17,260
Licenses and insurance	134,577	129,970
Meals and entertainment	33,571	22,778
Office and telephone	118,461	80,601
Quality assurance regulatory requirements	59,573	18,217
Professional fees	293,184	156,614
Rent and utilities	91,299	87,962
Repairs and maintenance	42,792	50,083
Research and development	67,542	146,896
Royalty	2,620	-
Stock based compensation	105,350	139,236
Transfer agent and shareholder information	31,402	37,067
Travel	206,176	183,417
Wages and benefits	1,474,077	875,392
	3,741,924	2,850,061
Income From Operations	858,525	477,788
Income Taxes		
Current tax expense	(256,000)	(281,000)
Future income tax (expense) benefit	(293,000)	662,000
	(549,000)	381,000
Net Income For The Year	309,525	858,788
Deficit, Beginning Of Year	(3,868,229)	(4,727,017)
Deficit, End Of Year	\$ (3,558,704)	\$ (3,868,229)
Basic Earnings Per Share	\$ 0.03	\$ 0.09
Diluted Earnings Per Share	\$ 0.03	\$ 0.09
Basic Weighted Average Number Of Shares Outstanding	11,163,386	9,909,090
Diluted Weighted Average Number Of Shares Outstanding	11,412,640	10,069,447

The accompanying notes are an integral part of these consolidated financial statements.

PYNG MEDICAL CORP.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	YEARS ENDED SEPTEMBER 30	
	2008	2007
Cash Flows Provided By (Used In):		
Operating Activities		
Net income for the year	\$ 309,525	\$ 858,788
Items not affecting cash:		
Amortization	370,695	282,396
Stock based compensation	105,350	139,236
Fair value of warrants issued	41,823	-
Accrued interest	34,616	1,648
Income tax expense (benefit)	549,000	(381,000)
	1,411,009	901,068
Net change in non-cash working capital items:		
Accounts receivable	(228,246)	(486,940)
Inventories	(30,490)	8,607
Prepaid expenses	(100,417)	(11,533)
Accounts payable	320,158	103,668
Accrued liabilities	264,752	68,350
	1,636,766	583,220
Financing Activities		
Increase in restricted cash	(159,630)	-
Proceeds from loan payable	1,000,000	-
Payments on loan payable	(101,405)	(89,324)
Payments on capital lease obligation	(15,318)	(16,711)
Shares issued for cash	25,200	18,000
	748,847	(88,035)
Investing Activities		
Redemption of short-term investments	150,000	-
Purchase of short-term investments	-	(100,000)
Deferred product development costs incurred	(604,088)	(85,981)
Patent costs incurred	(69,414)	(9,026)
Acquisition of equipment	(119,437)	(39,337)
Acquisition of assets	(1,784,003)	-
	(2,426,942)	(234,344)
(Decrease) Increase In Cash And Cash Equivalents During The Year	(41,329)	260,841
Cash And Cash Equivalents, Beginning Of Year	637,284	376,443
Cash And Cash Equivalents, End Of Year	\$ 595,955	\$ 637,284
Supplemental Disclosure Of Cash Flow Information		
Interest paid	\$ 35,213	\$ 9,835

The accompanying notes are an integral part of these consolidated financial statements.

PYNG MEDICAL CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2008 AND 2007

1. NATURE OF OPERATIONS

Pyng Medical Corp. is a public company incorporated under the British Columbia Business Corporations Act. Its shares are listed on the TSX Venture Exchange under the symbol PYT. The Company's principal business activity is the production and sale of the **FAST1®** Intraosseous Infusion System, **TPOD®** Pelvic Stabilizer, **MAT®** Tourniquet, and **CRIC™** Cricothyrotomy System.

On June 9, 2008, the Company incorporated its wholly-owned subsidiary, Pyng Medical USA Corp., in the State of Washington in the U.S., to enhance the distribution of its products.

2. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of the Company have been prepared in accordance with Canadian generally accepted accounting principles. Because a precise determination of many assets and liabilities is dependent upon future events, the preparation of financial statements for a period necessarily involves the use of estimates which have been made using careful judgment.

The consolidated financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the significant accounting policies summarized below.

a) Consolidation

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Pyng Medical USA Corp. All material inter-company transactions and balances have been eliminated on consolidation.

b) Cash and Cash Equivalents

For purposes of the balance sheet and statement of cash flows, the Company considers all highly liquid short-term investments with maturity of three months or less to be cash equivalents.

c) Inventories

Inventories are determined on a weighted average basis, and are valued at the lower of cost and net realizable value.

PYNG MEDICAL CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2008 AND 2007

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

d) Equipment

Equipment is recorded at cost with amortization provided for over the estimated useful lives of the assets at the following annual rates and methods:

Furniture and office equipment	20% declining balance
Medical equipment	20% declining balance
Leasehold improvements	30% straight line
Computer equipment	30% declining balance
Software	100% straight line
Equipment and software under capital lease	Straight line over term of lease

e) Leases

Leases are classified as either capital or operating leases. Leases that substantially transfer all the benefits and risks of ownership of property to the Company are accounted for as capital leases. At the time a capital lease is entered into, an asset is recorded together with its related long-term obligation in order to reflect the acquisition and financing. Assets recorded under capital leases are being amortized on the basis described in Note 2(d). Rental payments under operating leases are expensed as incurred.

f) Research and Development Costs

The Company has been in the process of researching and developing a medical device on the **FAST1™** Intraosseous Infusion System. All product development and related administrative costs, incurred prior to and after commencement of commercial production, that meet the criteria of the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3064 – "Goodwill and Intangible Assets", have been capitalized. The accumulated capitalized costs are being amortized on a per unit basis based on the sales volume projection for the next 6 years. The unamortized deferred product development costs are reviewed annually and should the review indicate that the basis of amortization requires modification, the change will be applied prospectively. All other expenditures for research and improvement of the **FAST1™** Intraosseous Infusion System are expensed as incurred.

During the year, the Company took over the process of researching and developing a medical device on the **CRIC™** Cricothyrotomy System as part of an asset acquisition. The deferred development costs related to **CRIC™** have not been amortized as the product is not in the production stage yet.

PYNG MEDICAL CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2008 AND 2007

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

g) Patents

Patents are recorded at cost and comprised of costs associated with preparing, filing and obtaining patents. Technology license costs are recorded at the fair value of consideration paid.

Patents are amortized using the straight-line method over 10 years. The amounts shown for patents do not necessarily reflect present or future values and the ultimate amount recoverable will be dependent upon the successful development and commercialization of products based on these rights. If management determines that such costs exceed estimated net recoverable value based on future cash flows, the excess of such costs is charged to operations.

h) Intellectual Property Rights

Intellectual property rights are recorded at cost and include patents, trademarks, and other intellectual and industrial property rights related to **TPOD®**, **MAT®**, and **CRIC™**. The carrying amount is subject to an impairment test annually as outlined in CICA Handbook Section 3064 – “Goodwill and Intangible Assets”. No amortization was recorded as the products are not in the production stage yet.

i) Stock Based Compensation

The Company follows the recommendations of CICA Handbook Section 3870 – “Stock Based Compensation and Other Stock Based Payments” to account for stock based transactions with officers, directors, employees, and outside consultants. Accordingly, the fair value of stock options is charged to operations as appropriate, with an offsetting credit to contributed surplus. The fair value of stock options which vest immediately is recorded at the date of grant; the fair value of options which vest in the future is recognized on a straight-line basis over the vesting period. Any considerations received on exercise of stock options, together with the related portion of contributed surplus, are credited to share capital.

j) Fair Value of Warrants

Proceeds from unit placements are allocated between shares and warrants issued according to their relative fair value using the residual method to determine the fair value of warrants issued. The value of warrants issued to brokers and creditors is determined by using the Black-Scholes model.

PYNG MEDICAL CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2008 AND 2007

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

k) Earnings Per Share (Continued)

Basic and diluted earnings per share amounts are computed using the weighted average number of common shares outstanding during the year.

The Company uses the treasury stock method to determine the dilutive effect of stock options and other dilutive instruments. Under the treasury stock method, only instruments with exercise amounts less than market prices impact the diluted calculations. This method assumes that common shares are issued for the exercise of warrants and options and that the assumed proceeds from the exercise of warrants and options are used to purchase common shares at the average market price during the period. The difference between the number of shares assumed issued and the number of shares assumed purchased is then added to the basic weighted average number of shares outstanding to determine the fully diluted number of common shares outstanding.

l) Income Taxes

The Company uses the asset and liability method of accounting for income taxes whereby future income tax assets are recognized for deductible temporary differences and operating loss carry-forwards, and future income tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the amounts of assets and liabilities recorded for income tax and financial reporting purposes. Future income tax assets are recognized only to the extent that management determines that it is more likely than not that the future income tax assets will be realized. Future income tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment or substantive enactment.

m) Revenue Recognition

Revenue from sales of the Company's products is recorded at the time the product is shipped, provided that collection of the proceeds of sale is reasonably assured.

n) Asset Impairment

On an annual basis and when impairment indicators arise, the Company evaluates the future recoverability of its non-monetary assets, including deferred product development costs, equipment, patents and intellectual property rights. Impairment losses or write downs are recorded in the event the net book value of such assets exceeds the estimated indicated future cash flows attributable to such assets.

PYNG MEDICAL CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2008 AND 2007

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

o) Use of Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses recorded during the reporting periods. Actual results could differ from these estimates and these differences could have a significant impact on the financial statements.

p) Foreign Currency Translation

The Company's functional and reporting currency is the Canadian dollar. Foreign currency denominated transactions is translated into Canadian dollars at the rate of exchange in effect at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies have been translated into Canadian dollars at the rate of exchange in effect at the balance sheet date. Any gains or losses resulting from translation have been included in the determination of income.

q) Variable Interest Entities

The CICA issued Accounting Guideline 15, "Consolidation of Variable Interest Entities", to provide accounting guidance related to variable interest entities ("VIE"). A VIE exists when the entity's equity investment is at risk. When a VIE is determined to exist, the guidance requires the VIE to be consolidated by the primary beneficiary. As at September 30, 2008 and 2007, the Company has determined that it does not have a primary beneficiary interest in VIEs.

r) Comparative Figures

Certain of the comparative figures have been reclassified to conform with the current year's presentation.

PYNG MEDICAL CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2008 AND 2007

3. CHANGES IN ACCOUNTING POLICIES

a) Inventory

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 increased inventory value. This standard is effective for fiscal years beginning on or after January 1, 2008. The Company is in the process of evaluating the impact of this standard.

b) 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.

c) 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.

PYNG MEDICAL CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2008 AND 2007

3. CHANGES IN ACCOUNTING POLICIES (Continued)

d) 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 has adopted EIC-166 effective September 30, 2008, which requires retroactive application to all transaction costs accounted for in accordance with CICA Handbook Section 3855, "Financial Instruments – Recognition and Measurement". The Company has evaluated the impact of EIC-166 and determined that no adjustments are currently required.

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

The Company is currently assessing the impact of the above new accounting standards on the Company's financial positions and results of operations.

f) 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 will require the restatement for comparative purposes of amounts reported by the Company for the year ended December 31, 2010. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

PYNG MEDICAL CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2008 AND 2007

4. FINANCIAL INSTRUMENTS

Effective October 1, 2006, the Company adopted accounting standards related to financial instruments that were issued by the Canadian Institute of Chartered Accountants ("CICA") in 2005.

These accounting policies were adopted on a prospective basis with no restatement of prior period financial statements.

The standards and policies are as follows:

i) Financial Instruments – Recognition and Measurement

In accordance with this standard, the Company classifies all financial instruments as held-to-maturity, available-for-sale, held-for-trading or loans and receivables. Financial assets classified as held-to-maturity, loans and other receivables, and financial liabilities other than those held for trading are measured at amortized cost. Available-for-sale financial instruments are measured at fair value with unrealized gains and losses recorded in other comprehensive income. Instruments classified as held-for-trading are measured at fair value with unrealized gains and losses recognized in the statement of income for the period.

ii) Comprehensive Income

This standard introduces the concept of comprehensive income, which consists of net income and other comprehensive income. The Company's financial statements will include a Statement of Comprehensive Income, which includes the components of comprehensive income. Cumulative changes in other comprehensive income ("OCI") are included in Accumulated Other Comprehensive Income ("AOCI"), which is presented as a new category within shareholders' equity on the balance sheet.

For the years ended September 30, 2008 and 2007, the Company did not have any OCI. As a result, a separate Statement of Comprehensive Income is not presented.

iii) Hedges

This standard specifies the criteria under which hedge accounting can be applied and how hedge accounting can be executed. As at September 30, 2008 and 2007, the Company had not designated any hedging relationships.

PYNG MEDICAL CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2008 AND 2007

4. FINANCIAL INSTRUMENTS (Continued)

The Company's financial instruments recognized on the balance sheet consist of cash and cash equivalents, short-term investments, accounts receivable, accounts payable and accrued liabilities, bank credit facility, loan payable, and capital lease obligation.

a) Credit Risk

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.

b) 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.

c) 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.

d) Interest Rate Risk

Demand loans, bank credit facility and capital lease obligations 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.

PYNG MEDICAL CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2008 AND 2007

5. RESTRICTED CASH

As at September 30, 2008, the Company held \$159,630 (US\$150,000) in a non-interest bearing third-party escrow account with the U.S. Bank National Association. The funds will be released to Bio Cybernetics International ("BCI") pursuant to the acquisition of assets agreement, subject to the Company receiving notice of change of contract from BCI to the Company through Novation on **CRIC™** (see Note 10).

6. INVENTORIES

	2008	2007
Raw materials and work in progress	\$ 239,215	\$ 171,493
Finished goods	78,802	2,130
	<u>\$ 318,017</u>	<u>\$ 173,623</u>

7. DEFERRED PRODUCT DEVELOPMENT COSTS

	2008	2007
Deferred product development costs	\$ 4,369,604	\$ 3,765,516
Less: Accumulated amortization	(2,023,920)	(1,737,640)
	<u>\$ 2,345,684</u>	<u>\$ 2,027,876</u>

8. EQUIPMENT

	2008		
	COST	ACCUMULATED AMORTIZATION	NET BOOK VALUE
Furniture and office equipment	\$ 139,556	\$ 85,063	\$ 54,493
Medical equipment	302,636	242,279	60,357
Leasehold improvements	99,441	53,900	45,541
Computer equipment	76,558	46,254	30,304
Software	121,286	96,690	24,596
Equipment and software under capital lease	45,000	45,000	-
	<u>\$ 784,477</u>	<u>\$ 569,186</u>	<u>\$ 215,291</u>

PYNG MEDICAL CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2008 AND 2007

8. EQUIPMENT (Continued)

	2007		
	COST	ACCUMULATED AMORTIZATION	NET BOOK VALUE
Furniture and office equipment	\$ 119,304	\$ 74,661	\$ 44,643
Medical equipment	297,911	227,979	69,932
Leasehold improvements	52,589	52,589	-
Computer equipment	56,621	39,171	17,450
Software	93,615	88,119	5,496
Equipment and software under capital lease	45,000	31,250	13,750
	<u>\$ 665,040</u>	<u>\$ 513,769</u>	<u>\$ 151,271</u>

9. PATENTS

	2008	2007
Patents	\$ 286,057	\$ 216,643
Less: Accumulated amortization	(116,224)	(87,044)
	<u>\$ 169,833</u>	<u>\$ 129,599</u>

10. ACQUISITION OF ASSETS

On May 31, 2008, the Company completed the acquisition of the trauma assets of Bio Cybernetics International ("BCI") (dba "Cybertech Medical"), including Trauma Pelvic Orthotic Device (**TPOD®**), Mechanical Advantage Tourniquet (**MAT®**), and Cricothyrotomy Kit (**CRIC™**). The purchase price was \$2,737,913, part paid on closing and part subject to achievement of certain milestones. The Company received final regulatory approval for this transaction from the TSX Venture Exchange.

In order to partially fund the acquisition, the Company obtained a loan from Vancity Capital Corporation ("Vancity") in the amount of \$1,000,000. As part of that financing, the Company also issued 110,000 common share purchase warrants to Vancity at an exercise price of \$0.55. 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.

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SEPTEMBER 30, 2008 AND 2007

10. ACQUISITION OF ASSETS (Continued)

The acquisition has been accounted for as a purchase of assets, and the consideration paid of \$2,737,913 was allocated to the assets acquired based on the estimated fair values on the date of acquisition as set out below:

Assets acquired:

Accounts receivable	\$ 73,223
Inventories	113,904
Intellectual property rights *	<u>2,550,786</u>
	<u>\$ 2,737,913</u>

Consideration given:

Cash	\$ 1,784,003
Accrued liabilities	<u>953,910</u>
	<u>\$ 2,737,913</u>

* Intellectual property rights include patents, trademarks, and other intellectual and industrial property rights related to **TPOD®**, **MAT®**, and **CRIC™**.

11. BANK CREDIT FACILITY

The Company has established credit facilities for up to \$1,000,000 (2007 - \$500,000) under a line of credit with its bank. The line of credit bears interest at prime plus ¾% per annum, is due on demand and secured under the general security agreement over certain assets of the Company. The line of credit is subject to financial covenants pertaining to certain ratios. As at September 30, 2008 and 2007, the Company had not used the line of credit.

12. 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.

PYNG MEDICAL CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2008 AND 2007

12. RELATED PARTY TRANSACTIONS (Continued)

a) Payment to Directors

During the year ended September 30, 2008, consulting fees of \$77,808 (2007 - \$156,870), directors fees of \$72,314 (2007 - \$8,252), and commission of \$Nil (2007 - \$128,203) were paid or accrued to the directors of the Company.

As at September 30, 2008, \$10,915 (2007 - \$8,656) was owing to directors for consulting fees and expense reimbursements. The amount is included in accounts payable.

b) Contractual Commitments with Directors

The Company had a consulting contract with a director to pay \$55,000 per year in consulting fees. The contract expired on February 29, 2008.

13. LOAN PAYABLE

	<u>2008</u>	<u>2007</u>
The Company has a promissory note bearing interest at prime plus 8% per annum. Monthly blended payments of \$27,064 are required. The note is secured by a general security agreement over certain assets of the Company.	\$ 932,678	\$ -
Less: Current portion	(218,488)	-
	<u>\$ 714,190</u>	<u>\$ -</u>

The required future annual principal and interest repayments on loan payable are as follows:

1 – 12 months	\$ 324,768
13 – 24 months	324,768
25 – 36 months	324,768
37 – 44 months	192,917
	<u>1,167,221</u>
Less: Imputed interest	<u>(234,543)</u>
Principal payments	<u>\$ 932,678</u>

PYNG MEDICAL CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2008 AND 2007

13. LOAN PAYABLE (Continued)

As at September 30, 2008, the Company was in violation of covenants relating to its loan payable pertaining to certain ratios. Subsequent to year-end, the Company obtained the necessary waivers from its lender regarding the covenant violations, to waive the right to demand repayment within one year from September 30, 2008.

14. SHARE CAPITAL

a) Authorized

100,000,000 common shares without par value

b) Issued and Outstanding

	NUMBER OF SHARES	AMOUNT	CONTRIBUTED SURPLUS
Balance, September 30, 2006	13,651,583	\$ 7,787,562	\$ 201,948
Shares issued on exercise of stock options	40,000	25,330	(7,330)
Stock based compensation	-	-	139,236
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)	-	-
Stock based compensation	-	-	105,350
Fair value of warrants issued	-	-	41,823
Balance, September 30, 2008	12,001,583	\$ 7,844,724	\$ 474,395

In May 2008, 200,000 shares held in escrow were released in accordance with TSX Venture Exchange policies.

In February 2008, the Company cancelled and returned 1,750,000 escrow shares to treasury.

In February 2008, the Company issued 30,000 shares for stock options at \$0.45 per share for total proceeds of \$13,500.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2008 AND 2007

14. SHARE CAPITAL (Continued)

b) Issued and Outstanding (Continued)

In November 2007, the Company issued 10,000 shares for stock options at \$0.45 per share for total proceeds of \$4,500.

In October 2007, the Company issued 20,000 shares for stock options at \$0.36 per share for total proceeds of \$7,200.

In July 2007, the Company issued 40,000 shares for stock options at \$0.45 per share for total proceeds of \$18,000.

c) Escrow Shares

As of September 30, 2008, 1,800,000 (2007 – 3,750,000) shares were held in escrow to be released pro-rata over a three year period in accordance with TSX Venture Exchange policies.

d) Warrants

On June 6, 2008, the Company issued 110,000 common share purchase warrants to Vancity Capital Corporation 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

A summary of warrant activities for the years presented is as follows:

	2008		2007	
	NUMBER OF WARRANTS	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER OF WARRANTS	WEIGHTED AVERAGE EXERCISE PRICE
Outstanding, beginning of year	-	\$ -	-	\$ -
Issued	<u>110,000</u>	<u>0.55</u>	-	-
Outstanding, end of year	<u>110,000</u>	<u>\$ 0.55</u>	-	\$ -

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2008 AND 2007

14. SHARE CAPITAL (Continued)

d) Warrants (Continued)

As at September 30, 2008, the following warrants were outstanding:

<u>NUMBER OF WARRANTS</u>	<u>EXERCISE PRICE</u>	<u>EXPIRY DATE</u>
110,000	\$ 0.55	June 6, 2013

e) Stock Options

At September 30, 2008 and 2007, 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.

A summary of stock option activities for the years presented is as follows:

	<u>2008</u>		<u>2007</u>	
	<u>NUMBER OF OPTIONS</u>	<u>WEIGHTED AVERAGE EXERCISE PRICE</u>	<u>NUMBER OF OPTIONS</u>	<u>WEIGHTED AVERAGE EXERCISE PRICE</u>
Outstanding, beginning of year	1,020,000	\$ 0.47	900,000	\$ 0.53
Granted	240,000	0.49	520,000	0.41
Exercised	(60,000)	0.42	(40,000)	0.45
Expired	(150,000)	0.75	(60,000)	0.75
Forfeited	-	-	(300,000)	0.51
Outstanding, end of year	<u>1,050,000</u>	\$ 0.44	<u>1,020,000</u>	\$ 0.47

PYNG MEDICAL CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2008 AND 2007

14. SHARE CAPITAL (Continued)

e) Stock Options (Continued)

As at September 30, 2008, the following stock options were outstanding:

NUMBER OF OPTIONS	EXERCISE PRICE	EXPIRY DATE	OPTIONS EXERCISABLE NUMBER OF OPTIONS
280,000	\$ 0.45	May 23, 2011	280,000
20,000	\$ 0.43	July 16, 2011	20,000
20,000	\$ 0.42	August 14, 2011	20,000
10,000	\$ 0.34	August 21, 2011	10,000
300,000	\$ 0.40	November 19, 2011	300,000
60,000	\$ 0.35	December 12, 2011	60,000
20,000	\$ 0.46	May 6, 2012	13,333
50,000	\$ 0.50	September 11, 2012	16,667
50,000	\$ 0.49	September 20, 2012	16,667
15,000	\$ 0.48	October 14, 2012	5,000
80,000	\$ 0.49	June 1, 2013	-
60,000	\$ 0.56	June 12, 2013	-
20,000	\$ 0.54	June 18, 2013	-
5,000	\$ 0.43	September 1, 2013	-
60,000	\$ 0.41	September 8, 2013	-
<u>1,050,000</u>			<u>741,667</u>

On March 5, 2008, the Company adopted a new stock option plan to increase the term of all stock options outstanding as of March 5, 2008 from 2 years to 5 years; and an additional \$51,354 has been expensed as stock based compensation as a result of the expiry date extension.

As at September 30, 2008, 741,667 (2007 - 523,333) stock options were vested and exercisable, and the fair value of \$105,350 (2007 - \$139,236) has been expensed as stock based compensation.

PYNG MEDICAL CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2008 AND 2007

14. SHARE CAPITAL (Continued)

e) Stock Options (Continued)

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 in fiscal 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Dividend yield	Nil	Nil
Expected volatility	85%-105%	75%-103%
Risk-free interest rate	3.72%	3.72%
Expected life	5 years	1.5 years

15. INCOME TAXES

a) A reconciliation of the combined federal and provincial income taxes at statutory rates and the Company's effective income tax expense is as follows:

	<u>2008</u>	<u>2007</u>
Statutory tax rate	32%	34%
Income tax expense at statutory rate	\$ 284,000	\$ 170,000
Permanent differences and other	52,000	54,000
Tax losses expired	199,000	104,000
Effect of change in tax rate	14,000	-
Decrease in valuation allowance	-	(709,000)
Income tax expense (benefit)	<u>\$ 549,000</u>	<u>\$ (381,000)</u>

PYNG MEDICAL CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2008 AND 2007

15. INCOME TAXES (Continued)

b) Future Income Taxes

Future income taxes result primarily from differences in the recognition of certain revenue and expense items for financial and income tax reporting purposes. The Company has temporary differences between the tax and accounting bases of assets. The temporary differences that give rise to future income tax assets (liabilities) at September 30, 2008 and 2007 are as follows:

	2008	2007
Future income tax assets (liabilities):		
Non-capital losses carried forward	\$ 42,000	\$ 525,000
Finance fees	5,000	-
Equipment	49,000	90,000
Deferred product development costs	(298,000)	(261,000)
Patents	34,000	27,000
Net future income tax (liabilities) assets	\$ (168,000)	\$ 381,000

16. ECONOMIC DEPENDENCE

The Company presently derives a substantial amount of its revenue from one distributor which contributed approximately 72% (2007 - 78%) of revenue for year ended September 30, 2008. 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 63% (2007 - 91%) of the accounts receivable balance at September 30, 2008.

17. SEGMENTED INFORMATION

The Company's operations are in Canada and it operates in one industry segment. Sales by geographic region are as follows:

	2008		2007	
USA	88%	\$ 5,781,578	93%	\$ 4,456,707
Other	12%	768,010	7%	350,998
		\$ 6,549,588		\$ 4,807,705

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2008 AND 2007

18. 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.

19. EARNINGS PER SHARE

The following table shows the effect of dilutive securities on the weighted average common shares outstanding. No adjustments to earnings were required for the calculation of diluted earnings per share.

	<u>2008</u>	<u>2007</u>
Basic weighted average shares outstanding	11,163,386	9,909,090
Effect of dilutive securities:		
Options	<u>249,254</u>	<u>160,357</u>
Diluted weighted average shares outstanding	<u>11,412,640</u>	<u>10,069,447</u>

20. CONTINGENCIES

During the year, the Company was made aware of a potential legal claim arising in the ordinary course of business. To date, there have been no legal proceedings filed against the Company. In the opinion of management, the ultimate outcome of the potential claim and the amount of the claim, if any, is not determinable; and the ultimate disposition of these matters will not have a material adverse effect on the Company's financial position, results of operations, or cash flows. Accordingly, no provision has been recorded in the accounts as at September 30, 2008.