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## **Management Discussion and Analysis for the Fiscal Year Ended September 30, 2009**

The following discussion and analysis of the operations, results, and financial position of the company for the three and twelve months ended September 30, 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 December 23, 2009. All monetary amounts, unless otherwise indicated, are expressed in Canadian dollars. Additional regulatory filings for the company can be found on the Sedar website at [www.sedar.com](http://www.sedar.com). The company's website can be found at [www.pyng.com](http://www.pyng.com).

### **Forward-Looking Statements**

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

## **Business Description**

Pyng Medical Corp. (“Pyng”) maintains an office at Unit 7, 13511 Crestwood Place, Richmond, BC V6V 2E9. The Company’s registered and records office is located at 15<sup>th</sup> 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 US to enhance the distribution of its products.

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

Pyng Medical is a global medical device company that discovers, develops, manufactures and markets a suite of innovative trauma and resuscitation products that save lives in seconds. These products are sold worldwide directly and through distribution partners to military, hospital, EMS, government agency, and law enforcement customers. 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.

## **Pyng Product Portfolio**

The **FAST1®** 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 **FAST1®** Intraosseous Infusion System, which has been granted numerous patents in the United States, Mexico, Canada and Europe. The **FAST1®** Intraosseous Infusion System is the largest selling Sternal I/O worldwide with over 200,000 units delivered to date.

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

## Fiscal 2009 Summary of Activities and Business Results

- Global medical devices market was severely impacted during late 2008 and the first half of 2009. There are signs of increased military spending in the US for 2010 additional Afghanistan deployments.
- Trauma care product unit sales (T-POD & MAT), as a percentage of the total product mix increased from 10.3% in 2008 to 33.3% in 2009, a positive reflection on managements product diversification strategies.
- Gross margins for the year improved by 2 percentage points (70%: 2008, 72%: 2009) due to improved product mix.
- The change in product unit mix of IO (89.7%: 2008, 66.7%: 2009) vs. Trauma Care products (10.3%: 2008, 33.3%: 2009) demonstrates that Pyng now is both less reliant on the IO and has diversified the customer base to include EMS and Hospital opportunities, a positive result of management's product and market diversification strategies.
- The increase in wages and benefits for 2009 was due to a full year of US payroll compared to only four months for 2008. This full year of salaries resulted in proportionately higher US medical benefits and payroll taxes on top of severance costs associated with downsizing during the year. This was a result of management's move to increase its US based sales force and to capitalize on Pyng's US dollar denominated cash flow.
- The Company reduced its operating staff when it became clear the market was softening and there was a delay in the deployment of new **FASTx™** and **CRIC™** products.
- The increase in professional services costs from \$293,184 in 2008 to \$535,855 in 2009 related to additional legal expenses incurred associated with private placement, increased regulatory requirements, patent and trademark activity due to an expanded product portfolio, and legal and documentation services.
- The increase in inventory from \$318,017 (FY2008) to \$469,313 (FY2009) was due to the increase of raw materials for **CRIC™** product development.
- The potential future liability of Bio Cybernetics International ("BCI") relates to three milestone payments for **CRIC™** that will not likely occur in the 2010 fiscal year.

### Significant achievements during 2009

- CE Mark for **CRIC™** obtained and introduction of **CRIC™** to various international geographic markets.
- Signed hospital distribution agreement with Tri-Anim.
- Signed exclusive distribution agreements for all major Western European countries.
- Hired a new Vice President of R&D that holds more than 20 patents and has 25 years of experience in medical devices.
- Hired a new Vice President US Sales, from industry-leading company, Medtronic Physio-Control to accelerate the growth and market diversification in the US.
- Private Placement executed to add additional investment for new product development, sales force expansion, as well as provide additional general working capital.

### Strategic Priorities for Fiscal 2010

- Achieve **FASTx™** CE and FDA regulatory approval, and launch product.
- Distribute **CRIC™** internationally.
- Further develop a US direct distribution organization.
- Diversify civilian market mix to 30% of revenue.
- Develop EMEA (Europe, Middle East, Africa) for Pyng products.
- Develop a second generation **MAT®** product.
- Execute a European physical distribution warehouse to cut costs and improve access for Pyng products in Europe.
- Continue efforts to recapitalize the Company.

**Selected Annual Information**

	For the Year Ended September 30		
	2009	2008	2007
Net sales/total revenues	\$ 6,026,177	\$ 6,549,588	\$ 4,807,705
Net income (loss) after tax	(246,904)	309,525	858,788
Net income (loss) per share (diluted)	(0.02)	0.03	0.09
Total assets	\$ 7,561,364	\$ 7,831,348	\$ 4,724,919
Total long-term financial liabilities	1,775,189	882,190	Nil
Cash dividends declared	Nil	Nil	Nil

**Results of Operations**

The Company's sales for the fourth quarter ended September 30, 2009 were \$1,718,272 (2008: \$2,168,645); resulting in a 21% decrease in sales over the same period in fiscal 2008. On a year to date basis, sales were \$6,026,177 (2008: \$6,549,588); an 8% decrease in sales over fiscal 2008. Our flagship product the **FAST1®** Intraosseous Infusion System is still the largest selling Sternal IO System with over 200,000 units shipped to-date.

Cost of sales for the fourth quarter ended September 30, 2009 was \$416,034 (2008: \$645,034) providing a gross margin of \$1,302,238 or 76% (2008: \$1,523,611 or 70%). On a year to date basis, cost of sales was \$1,685,547 (2008: \$1,949,139) providing a Gross Margin of \$4,340,630 or 72% (2008: \$4,600,449 or 70%). Gross margin for the year increased by 2% over the prior year.

Total operating expenses (excluding cost of sales, amortization, stock based compensation, and accrued interest) of \$1,056,369 for the quarter ended September 30, 2009 have increased compared to \$912,167 for the same quarter for 2008. On a percentage basis, operating expenses increased from 42% of sales for the quarter ended September 30, 2008 to 61% for the quarter ended September 30, 2009. On a year to date basis, total operating expenses (excluding cost of sales, amortization stock based compensation, and accrued interest) of \$3,959,236 have increased compared to \$3,265,879 for 2008. On a percentage basis, operating expenses increased from 50% of sales for the year ended September 30, 2008 to 66% for the year ended September 30, 2009. The significant increase in operating expenses was attributed to a number of non-recurring charges in the areas of private placement activities, organizational restructure, legal and documentation services. The total for the non-recurring charges

were approximately \$325,000. Alternatively, total operating expenses excluding the non-recurring charges was \$3,634,236 or 61% of sales.

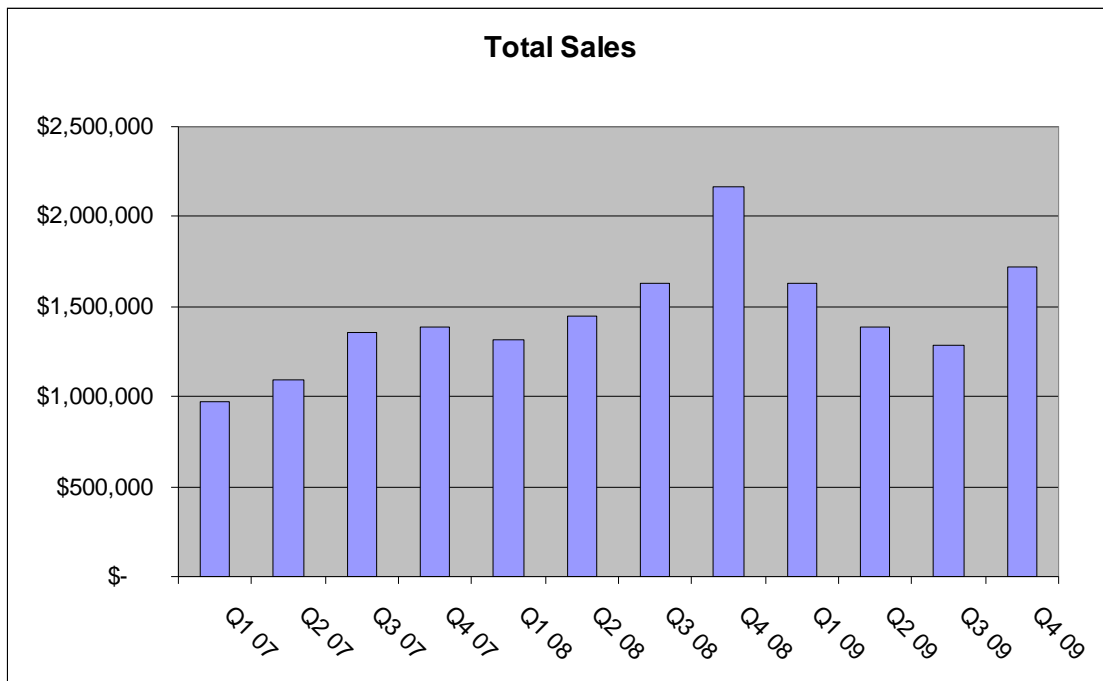
Net income after tax for the fourth quarter ended September 30, 2009 was \$38,529 (2008: \$16,111). For the year ended September 30, 2009, net loss after tax was \$246,904 (2008: income \$309,525) with cash outflows of \$443,424 (2008: \$41,329).

The Company sells its products in the U.S., Europe and Australia through distributors. Pyng Medical 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.

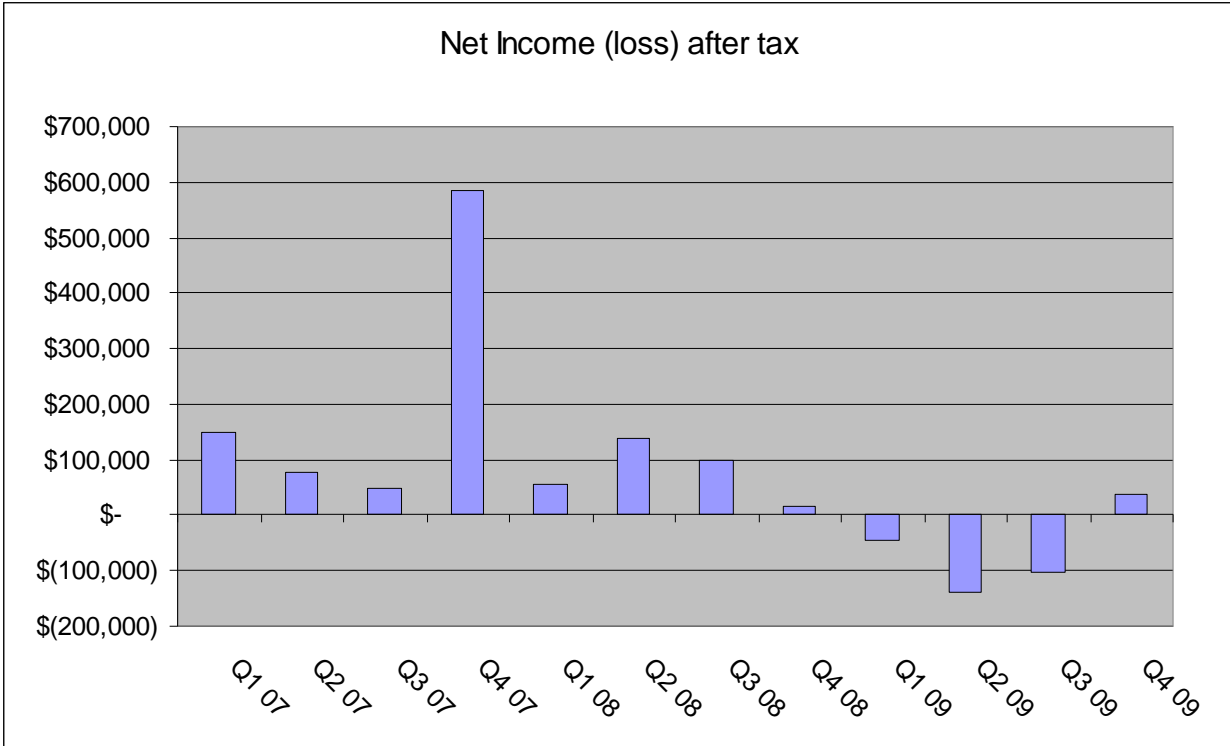
### Summary of Quarterly Results

The following tables and charts set out selected quarterly information for the last twelve quarters.

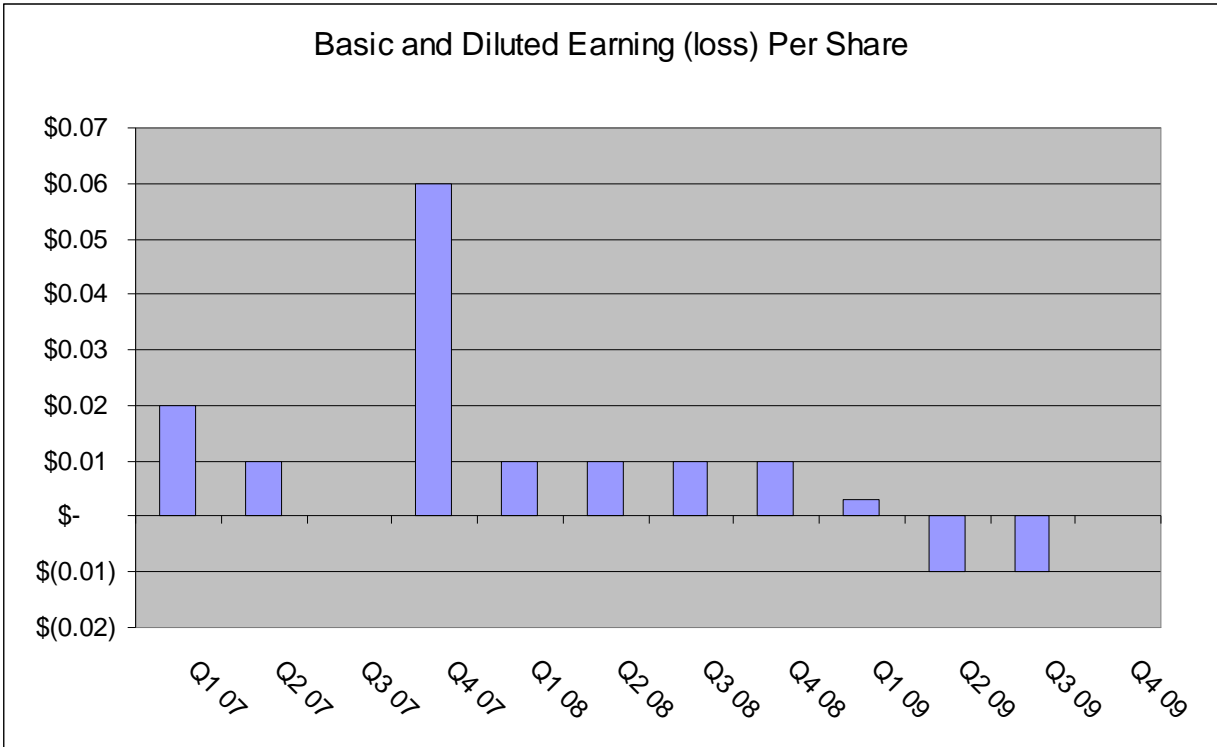
		<b>Total Sales</b>			
		<b>Q1</b>	<b>Q2</b>	<b>Q3</b>	<b>Q4</b>
<b>2007</b>	\$	967,456	\$ 1,097,469	\$ 1,356,251	\$ 1,386,529
<b>2008</b>	\$	1,311,207	\$ 1,444,769	\$ 1,624,967	\$ 2,168,645
<b>2009</b>	\$	1,633,985	\$ 1,385,177	\$ 1,288,743	\$ 1,718,272



NET INCOME (LOSS) AFTER TAX				
	Q1	Q2	Q3	Q4
2007	\$ 149,834	\$ 77,429	\$ 47,685	\$ 583,840
2008	\$ 57,119	\$ 138,722	\$ 97,573	\$ 16,111
2009	\$ (45,989)	\$ (137,926)	\$ (101,518)	\$ 38,529



Basic and Diluted Earnings (loss) Per Share							
	Q1		Q2		Q3		Q4
<b>2007</b>	\$	0.02	\$	0.01	\$	0.00	\$ 0.06
<b>2008</b>	\$	0.01	\$	0.01	\$	0.01	\$ 0.01
<b>2009</b>	\$	0.00	\$	(0.01)	\$	(0.01)	\$ 0.00



### Liquidity and Solvency

At September 30, 2009, the Company had a working capital of \$654,606 (2008: \$361,011).

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 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.

## **Related Party Transactions**

- (a) 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.

### **Payment to directors**

During the year ended September 30, 2009, consulting fees of \$222,305 (2008 - \$77,808) and directors fees of \$82,105 (2008 - \$72,314) were paid or accrued to the directors of the Company. The majority of the consulting fees were for the services of a Medical Director and an Interim CEO.

As at September 30, 2009, \$15,378 (2008 - \$10,915) was owing to directors for consulting fees and expense reimbursements. The amount is included in accounts payable.

- (b) The following are the contractual commitments with related parties:

As at September 30, 2009, the Company did not have contractual commitments with directors.

### **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.

In light of these requirements, management reviewed in 2009 the basis used for the amortization of Deferred Product Development Costs. Management concluded that, based on current sales volume projections, the unamortized deferred product development costs at the beginning of 2009 should be amortized on a per unit basis based on the sales volume projection for the next five years.

### **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 are non-cash entries that give rise to future income tax assets (liabilities) at September 30, 2009.

### **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.

## 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.

## Outstanding Share Data

The Company has one class of common shares. As at September 30, 2009 there were 12,001,583 common shares issued and outstanding. As at December 23, 2009, the effective date of this report, there are 12,001,583 common shares issued and outstanding.

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

	2009		2008	
	NUMBER OF OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER OF OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE
Outstanding, beginning of year	1,050,000	\$ 0.44	1,020,000	\$ 0.47
Granted	461,200	0.22	240,000	0.49
Exercised	-	-	(60,000)	0.42
Expired	-	-	(150,000)	0.75
Forfeited	(445,000)	0.43	-	-
Outstanding, end of year	<u>1,066,200</u>	\$ 0.35	<u>1,050,000</u>	\$ 0.44

As at September 30, 2009, the following stock options were outstanding:

NUMBER OF OPTIONS	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE NUMBER OF OPTIONS
	EXERCISE PRICE	EXPIRY DATE		
275,000	\$ 0.45	May 23, 2011		275,000
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
60,000	\$ 0.35	December 12, 2011		60,000
50,000	\$ 0.50	September 11, 2012		50,000
81,200	\$ 0.23	May 10, 2013		-
50,000	\$ 0.49	June 1, 2013		33,334
60,000	\$ 0.56	June 12, 2013		40,000
60,000	\$ 0.41	September 8, 2013		40,000
50,000	\$ 0.20	May 18, 2014		-
300,000	\$ 0.23	July 19, 2014		-
30,000	\$ 0.17	August 10, 2014		-
<u>1,066,200</u>				<u>548,334</u>

### Economic Dependence

The Company presently derives a substantial amount of its revenue from one distributor which contributed approximately 76% (2008 - 72%) of revenue for year ended September 30, 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 64% (2008 - 63%) of the accounts receivable balance at September 30, 2009.

### Contingencies

During the fiscal year 2009, the Company was made aware of a potential legal claim arising in the ordinary course of business. As at September 30, 2009, there have been no legal proceedings filed against the Company. 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 as at September 30, 2009.

## **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](http://www.sedar.com)

## **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.

## **Subsequent Events**

There were no reportable events subsequent to the year end.