

PYNG MEDICAL



***Saving lives by saving time
through innovation in resuscitation***

Report for the Three Months Ended December 31, 2009 and 2008

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PYNG MEDICAL CORP.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

For the Three Months Ended December 31, 2009 and 2008

PYNG MEDICAL CORPORATION
Consolidated Balance Sheets

As at December 31, 2009 and 2008
(Expressed in Canadian Dollars)

ASSETS	December 31-2009	September 30-2009
Current		
Cash and cash equivalents	\$ 383,889	\$ 152,531
Accounts receivable	879,249	955,362
Inventories (Note 7)	459,252	469,313
Prepaid expenses	128,842	80,153
	1,851,232	1,657,359
Deferred product development costs (Note 8)	3,110,076	2,949,796
Property and equipments (Note 10)	190,744	209,197
Patents (Note 11)	258,832	237,828
Intellectual property rights (Note 12)	2,523,293	2,507,184
	\$ 7,934,177	\$ 7,561,364
LIABILITIES		
Current		
Accounts payable	\$ 576,965	\$ 401,866
Accrued liabilities	341,469	346,072
Drawn down from line of credit (Note 13)	197,567	-
Loan payable (Note 15)	261,382	254,815
	1,377,383	1,002,753
Loan payable (Note 15)	419,296	487,191
Convertible debentures (Note 16)	265,941	252,378
Other long-term liabilities (Note 12)	683,620	683,620
Future income tax liabilities	352,000	352,000
	3,098,240	2,777,942
SHAREHOLDERS' EQUITY		
Equity portion of convertible debentures	191,825	191,825
Share capital (Note 17)	7,844,724	7,844,724
Contributed surplus	574,279	552,481
Accumulated deficit	(3,774,891)	(3,805,608)
	4,835,937	4,783,422
	\$ 7,934,177	\$ 7,561,364

Nature and continuance of operations (Note 1)
 Commitments (Note 20)

Approved on behalf of the board

"Michael Jacob"
 Director

"Robert Di Silvio"
 Director

See accompanying notes to the consolidated financial statements

PYNG MEDICAL CORPORATION

Consolidated Statements of Income and Deficit

*For the Three Months Ended December 31, 2009 and 2008
(Expressed in Canadian Dollars)*

	2009		2008	
Sales	\$	1,585,684	\$	1,633,985
Cost of goods sold		452,778		468,833
Gross margin		1,132,906		1,165,152
Expenses				
Advertising and promotion		6,794		72,782
Amortization of deferred product development costs		43,608		91,024
Amortization - other		34,410		34,973
Consulting fees (Note 14)		75,619		118,599
Foreign exchange loss (gain)		5,747		(150,812)
Interest and bank charges		6,224		31,942
Interest on long-term debt		43,100		-
Licenses and insurance		43,384		36,583
Meals and entertainment		16,952		15,290
Office and telephone		30,780		59,138
Quality assurance regulatory requirements		8,330		16,168
Professional fees		60,976		89,843
Rent and utilities		22,222		23,650
Repairs and maintenance		6,375		20,475
Research & development		3,175		1,346
Royalties		1,479		1,652
Stock based compensation (Note 17 (e))		21,798		20,508
Transfer agent & shareholder information		3,849		1,894
Travel		92,875		121,410
Wages and benefits (Note 14)		574,519		604,675
		1,102,217		1,211,141
Income (Loss) from operation		30,689		(45,989)
Other income				
Interest income		28		-
Net income (loss) for the period		30,717		(45,989)
Deficit, beginning of the period		(3,805,608)		(3,558,704)
Deficit, end of the period	\$	(3,774,891)	\$	(3,604,693)
Earning per share				
Basic	\$	0.00	\$	(0.00)
Fully diluted		0.00		(0.00)
Weighted average number of shares outstanding				
Basic		12,001,583		12,001,583
Fully diluted		12,005,448		12,001,583

See accompanying notes to the consolidated financial statements

PYNG MEDICAL CORPORATION

Consolidated Statements of Cash Flows

*For the Three Months Ended December 31, 2009 and 2008
(Expressed in Canadian Dollars)*

	2009	2008
Cash provided from (used for)		
Operating activities		
Net (loss) for the period	\$ 30,717	\$ (45,989)
Items not involving cash		
Amortization of deferred product development costs	43,608	91,024
Amortization - other	34,410	34,973
Accreted interest on convertible debentures	8,104	-
Stock-based compensation	21,798	-
Unrealized foreign exchange gain (loss)	12,005	20,508
	150,642	100,516
Net change in non-cash working capital items		
Accounts receivable	76,046	290,721
Inventories	10,061	(335,734)
Prepaid expenses	(48,689)	40,603
Accounts payable and accrued liabilities	167,929	(305,634)
	355,989	(209,528)
Financing activities		
Decrease in restricted cash	-	159,630
Drawn down from line of credit	197,567	199,222
Repayment on loan payable	(61,328)	(52,174)
	136,239	306,678
Investing activities		
Deferred product development costs incurred	(203,888)	(428,146)
Patent costs incurred	(31,501)	(7,950)
Acquisition of property and equipments	-	(97,495)
Additions to the intellectual property rights	(16,110)	-
	(251,499)	(533,591)
Effect of exchange rate changes on cash and cash equivalents	(9,371)	-
Increase in cash and cash equivalents	231,358	(436,441)
Cash and cash equivalents, beginning of period	152,531	595,955
Cash and cash equivalents, end of period	\$ 383,889	\$ 159,514
Supplemental information		
Interest paid	\$ 44,626	\$ 29,035

See accompanying notes to the consolidated financial statements

1. NATURE AND CONTINUANCE OF OPERATIONS

Pyng Medical Corp. (the Company or Pyng) is a public company incorporated under the British Columbia Business Corporations Act. Its shares are listed on the TSX Venture Exchange (“TSX-V”) under the symbol PYT. The Company is in the business of producing and selling the *FASTI*® 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.A. to enhance the distribution of its products.

These interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles applicable to a going concern, which assumes that the Company will be able to meet its obligations and continue its operations for the next twelve months. As at December 31, 2009, the Company has cash and cash equivalents in the amount of \$383,889 (2008: \$159,514). The Company’s ability to continue as a going concern is dependent upon its ability to achieve future profitable operations and to obtain the necessary financing to meet its obligations and repay its liabilities arising from normal business operations.

These interim consolidated financial statements should be read in conjunction with the annual consolidated financial statements of the Company as at and for the year ended September 30, 2009. Amounts in these interim consolidated financial statements are unaudited and presented in Canadian dollars.

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) Basis of Presentation

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

b) Use of Estimates

The presentation of consolidated financial statements in conformity with Canadian GAAP 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 consolidated financial statements and reported amounts of revenues and expenses during the period. Significant areas requiring the use of estimates include the rates of amortization

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

for property and equipments, impairment of long-lived assets, estimates of accounts payable and accrued liabilities, the assumptions used in the determination of the fair value of stock-based

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Notes to Consolidated Financial Statements

For the Three Months Ended December 31, 2009 and 2008

(Expressed in Canadian Dollars)

compensation, and the determination of the valuation allowance for future income tax assets. Actual results may differ from those estimates and these differences could have a significant impact on the financial statements.

c) Cash and Cash Equivalents

Cash includes cash on hand and demand deposits. Cash equivalents comprise short-term, highly liquid investments that are readily convertible to known amounts of cash which are subject to insignificant risk of change and have maturities of three months or less from the date of acquisition, held for the purpose of meeting short-term cash commitments rather than for investing or other purposes.

d) Inventories

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

e) Property and Equipments

Property and equipments are recorded at cost less amortization provided for over the estimated useful lives of the assets at the following annual rates and methods:

Assets	Annual Rate	Basis
Furniture and office equipment	20%	Declining balance
Medical equipment	20%	Declining balance
Computer equipment	30%	Declining balance
Leasehold improvement	30%	Straight-line
Software	100%	Straight-line

f) Research and Development Costs

The Company has been in the process of researching and developing a medical device on the **FASTI™** 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. All other expenditures for research and improvement of the **FASTI™** Intraosseous Infusion System are expensed as incurred. The accumulated capitalized costs are being amortized on a per unit basis based on the sales volume projection for the next 5 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.

During the fiscal year 2008, the Company took over the process of developing a medical device on the **CRIC™** Cricothyrotomy System as part of an asset acquisition, and began the

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

development of **FASTx™** Sternal Intraosseous Device. All the development costs incurred that meet the criteria of goodwill and intangible assets per CICA Handbook Section 3064 have been capitalized and will be amortized upon commercial production.

g) Government Assistance

Government grants are recognized only when there is reasonable assurance that the Company will comply with any conditions attached to the grant and that the grant will be received. Grant amounts resulting from government assistance programs on research and development costs are reflected as reductions to the cost of the assets or to the expenses to which they relate at the time the assistance becomes receivable.

h) 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.

i) Intellectual Property Rights

All the costs incurred to acquire patents, trademarks, and other intellectual and industrial property rights related to **TPOD®**, **MAT®**, and **CRIC™**, which were acquired in May 2008 (Note 12) have been capitalized and will be amortized over the useful lives of the property rights. Annually, the Company will review the recoverability of the intellectual property rights through an evaluation of expected cash flow to determine if there has been an impairment in the recoverable amount.

j) 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.

The Company uses the Black-Scholes option valuation model to calculate the fair value of share purchase options at the date of grant. Option pricing models require the input of highly subjective assumptions, including the expected price volatility. Changes in these assumptions can materially affect the fair value estimate.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

k) Fair Value of Warrants

The Company applies the fair value method of accounting for share purchase warrants. Under this method, proceeds received on issuance of units consisting of shares and warrants are allocated between share capital and contributed surplus based on their relative fair value, whereby the fair value of warrants is determined using Black-Scholes model.

l) Earnings Per Share

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.

m) 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.

n) Revenue Recognition

Revenue from sales of the Company's products is recognized at the time of shipment, at which point risks and rewards over ownership and title of transfer have been passed to the customer, provided that collection of the proceeds of sale is reasonably assured.

o) Impairment of long-lived assets

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. If the changes in circumstances indicate that the carrying amount of an asset may not be recoverable, future cash flows expected to result from the use of the asset and its disposition must be estimated. If the undiscounted amount of the

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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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 asset and its estimated fair value based on discounted net future cash flow or quoted market prices. As at December 31, 2009, there has been no impairment loss recognized.

p) Foreign Currency Translation

The Company's functional and reporting currency is the Canadian dollar. The transactions denominated in foreign currencies are 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) Deferred Financing Costs

Financing costs for convertible debentures are capitalized and amortized on a straight-line basis, which approximates the effective-interest rate method, to interest expense over the life of the debt instruments.

r) 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. The Company has determined that it does not have a primary beneficiary interest in VIEs.

s) Comparative Figures

Certain comparative figures have been reclassified to confirm with the current period's presentation.

3. CHANGES IN ACCOUNTING POLICIES

a) 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 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.

3. CHANGES IN ACCOUNTING POLICIES (Continued)

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.

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 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.

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 was effective for the Company beginning October 1, 2008.

3. CHANGES IN ACCOUNTING POLICIES (Continued)

f) 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.

g) 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.

h) 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.

i) 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

3. CHANGES IN ACCOUNTING POLICIES (Continued)

PYNG MEDICAL CORPORATION

Notes to Consolidated Financial Statements

For the Three Months Ended December 31, 2009 and 2008

(Expressed in Canadian Dollars)

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 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.

j) 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 the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

4. CAPITAL MANAGEMENT

The Company’s objectives when managing capital are to safeguard its ability to continue as a going concern, to provide an adequate return to shareholders, to meet external capital requirements on credit facilities and to support any growth plans.

In the management of its capital, the Company includes its cash and cash equivalent balances. The Company monitors capital based on the debt to debt-plus-equity ratio. Debt is total debt shown on the balance sheet, less cash and cash equivalents. Debt-plus-equity is calculated as debt shown on the balance sheet, plus total shareholders’ equity, which includes share capital, contributed surplus and deficit.

The Company’s policy is to keep its debt to debt-plus-equity ratio at a manageable level consistent with the current business cycle and the business opportunities outlook foreseen by the Company. As a general guideline, the Company’s policy will be to keep its debt to debt-plus-equity ratio to a minimal level, except in unusual circumstances such as major acquisition. Currently, the Company is in full compliance with its capital risk management policies. The Company’s Board of Directors approves management’s annual capital expenditures plans and reviews and approves any material debt borrowing plans proposed by the Company’s management.

To effectively manage the entity’s capital requirements, the Company has in place a planning and budgeting process to help determine the funds required to ensure the Company has the appropriate liquidity to meet its operating and growth objectives. The Company ensures that there are sufficient cash and cash equivalents to meet its short-term business requirements, taking into account its anticipated cash flows from operations and its holdings of cash and cash equivalents.

5. FINANCIAL INSTRUMENTS

PYNG MEDICAL CORPORATION

Notes to Consolidated Financial Statements

For the Three Months Ended December 31, 2009 and 2008

(Expressed in Canadian Dollars)

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:

a) 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.

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 as at December 31, 2009.

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. 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

5. FINANCIAL INSTRUMENTS (Continued)

irregularities are addressed promptly. The Company also acquires accounts receivable insurance coverage to mitigate collection risks.

d) 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.

6. 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 are to 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 the **CRIC™** (see Note 12).

On November 14, 2008, the Company received a notice of change of contract from BCI to the Company through Novation on the **CRIC™** and the funds were subsequently released to BCI on November 18, 2008.

7. INVENTORIES

	December 31-2009		September 30-2009	
Raw Material and work in progress	\$	426,608	\$	400,496
Finished goods		32,644		68,817
	\$	459,252	\$	469,313

8. DEFERRED PRODUCT DEVELOPMENT COSTS

	December 31-2009		September 30-2009	
Deferred product development costs	\$	5,369,769	\$	5,165,881
Less: accumulated amortization		(2,259,693)		(2,216,085)
	\$	3,110,076	\$	2,949,796

9. GOVERNMENT ASSISTANCE

Under an agreement through the Industrial Research Assistance Program (“IRAP”), the National Research Council of Canada (“NRC”) agreed to reimburse certain of the Company’s allowable direct expenditures on the development of **FASTx™**. In fiscal 2009, the Company received a total reimbursement of \$8,100 (2008 - \$69,759), and the amount was recorded as a reduction of deferred product development costs.

9. GOVERNMENT ASSISTANCE (Continued)

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During the fiscal year 2009, the Company entered into an agreement with the U.S. Army Medical Research Acquisition Activity (“USAMRAA”) to receive reimbursement for certain direct expenditures on the development of **CRIC™** and a total reimbursement of \$300,364 (US\$253,162) was received. As at December 31, 2009, the expenditures in the amount of \$38,136 (US\$35,568) has been submitted for reimbursement but not received. These amounts were recorded as reductions of deferred product development costs.

10. PROPERTY AND EQUIPMENTS

December 31-2009	Cost	Amortization	Net Book Value
Furniture and office equipments	179,150	107,229	71,921
Medical equipments	312,722	259,020	53,702
Computer equipments	86,817	59,619	27,198
Leasehold improvements	108,190	74,073	34,117
Software	166,947	163,141	3,806
	\$ 853,826	\$ 663,082	\$ 190,744

September 30-2009	Cost	Amortization	Net Book Value
Furniture and office equipments	179,150	103,444	75,706
Medical equipments	312,722	256,194	56,528
Computer equipments	86,817	57,414	29,403
Leasehold improvements	108,190	70,001	38,189
Software	166,947	157,576	9,371
	\$ 853,826	\$ 644,629	\$ 209,197

11. PATENTS

	December 31-2009	September 30-2009
Patents	\$ 424,751	\$ 393,250
Less: accumulated amortization	(165,919)	(155,422)
	\$ 258,832	\$ 237,828

12. INTELLECTUAL PROPERTY RIGHTS

PYNG MEDICAL CORPORATION

Notes to Consolidated Financial Statements

For the Three Months Ended December 31, 2009 and 2008

(Expressed in Canadian Dollars)

	December 31-2009		September 30-2009	
Balance, beginning of the period	\$	2,507,184	\$	2,550,786
Addition		16,109		53,793
Reversal of accrued liabilities		-		(97,395)
Balance, end of the period	\$	2,523,293	\$	2,507,184

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, of which \$1,784,003 was paid in cash on closing and the balance \$953,910 is the contingent payments subject to achievement of certain milestones which was recorded in accrued liabilities.

In order to partially fund the acquisition, the Company obtained a bank loan in the amount of \$1,000,000. As part of that financing, the Company also issued 110,000 common share purchase warrants to the bank 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.

The acquisition has been accounted for as a purchase of assets, and the consideration 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	Amount	
Accounts receivable	\$	73,223
Inventories		113,904
Intellectual property rights		2,550,786
	\$	2,737,913
Consideration		
Cash	\$	1,784,003
Contingent payments		953,910
	\$	2,737,913

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

** In February 2009, the Company became aware that the achievement of certain milestones will most likely not occur within the next twelve months. As a result, \$683,620 was reclassified as other long term liabilities and as at December 31, 2009, there is no change on these liabilities.

PYNG MEDICAL CORPORATION*Notes to Consolidated Financial Statements**For the Three Months Ended December 31, 2009 and 2008**(Expressed in Canadian Dollars)***13. BANK CREDIT FACILITY**

The Company has established credit facilities for up to \$1,000,000 under a line of credit with its bank. The line of credit bears interest at prime plus 2% per annum, is due on demand and secured under the general security agreement over all assets of the Company. The line of credit is subject to financial covenants pertaining to certain ratios. As at December 31, 2009, the amount of \$197,567 has been drawn down from this credit facility (2008: Nil).

14. 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.

a) 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.

b) Contractual commitments with directors

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

15. LOAN PAYABLE

	December 31-2009	September 30-2009
Promissory note payable in Canadian dollars, interest at prime plus 8% per annum, monthly blended payment \$26,590 until May 15, 2012, secured by a general security agreement over all assets of the Company, subject to financial covenants pertaining to certain ratios, common share purchase warrants 110,000 are attached (Note 12 and 17)	\$ 680,678	\$ 742,006
Less: current portion	(261,382)	(254,815)
	\$ 419,296	\$ 487,191

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

1 - 12 months	\$ 319,080
13 - 24 months	319,080
25 - 29 months	133,183
	\$ 771,343

PYNG MEDICAL CORPORATION

Notes to Consolidated Financial Statements

For the Three Months Ended December 31, 2009 and 2008

(Expressed in Canadian Dollars)

16. CONVERTIBLE DEBENTURES

	December 31-2009		Septemebr 30-2009	
Convertible debenture issued	\$	545,000	\$	545,000
Equity portion of convertible debenture		(191,825)		(191,825)
		353,175		353,175
Deferred financing costs (net of amortization)		(99,811)		(105,270)
Interest accretion		12,577		4,473
Debt portion of convertible debenture	\$	265,941	\$	252,378

On August 10, 2009, the Company issued convertible debentures in the amount of \$545,000, which are due and payable on August 10, 2014. The amount of \$495,000 out of \$545,000 was issued to directors and officers of the Company. The debentures are convertible into common shares of the Company at \$0.20 per share. The Company issued 2,725,000 common share purchase warrants at \$0.001 per warrant as part of the convertible debt financing agreement. 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.

Interest on the debentures is calculated at prime plus 10% per annum. The interest is payable quarterly in Canadian dollars. The debentures are secured by all assets of the Company, subordinated to the Company's bank credit facility and loan payable.

The liability component of the convertible debt is calculated as the present value of the principal, discounted at a rate approximating the interest rate that was estimated would have been applicable to non-convertible debt at the time the debt was issued. This portion of the convertible debt is accreted over its term to the full face value by charges to interest expense. The accretion is a non-cash transaction and has been excluded from the statement of cash flows.

The equity element of the convertible debt comprises the value of the conversion option, being the difference between the face value of the convertible debt and the liability component.

17. SHARE CAPITAL

a) Authorized

100,000,000 common shares without par value

17. SHARE CAPITAL (Continued)

b) Issued and Outstanding

	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

In September 2009, 300,000 shares held in escrow were released in accordance with TSX Venture Exchange policies.

In March 2009, 300,000 shares held in escrow were released in accordance with TSX Venture Exchange policies.

In October 2008, 300,000 shares held in escrow were released in accordance with TSX Venture Exchange policies.

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.

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.

c) Escrow Shares

As at December 31, 2009, 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.

17. SHARE CAPITAL (Continued)

PYNG MEDICAL CORPORATION

Notes to Consolidated Financial Statements

For the Three Months Ended December 31, 2009 and 2008

(Expressed in Canadian Dollars)

d) 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 agreement. 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 bank 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:

	December 31-2009		September 30-2009	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
Outstanding, beginning of the period	2,835,000	\$ 0.23	110,000	\$ 0.55
Addition	-	-	2,725,000	0.22
Outstanding, end of the period	2,835,000	\$ 0.23	2,835,000	\$ 0.23

As at December 31, 2009, 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		

e) 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

17. SHARE CAPITAL (Continued)

PYNG MEDICAL CORPORATION

Notes to Consolidated Financial Statements

For the Three Months Ended December 31, 2009 and 2008

(Expressed in Canadian Dollars)

e) Stock Options (Continued)

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.

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

	December 31-2009		September 30-2009	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding, beginning of the period	1,066,200	\$ 0.35	1,050,000	\$ 0.44
Granted	80,000	0.20	461,200	0.22
Forfeited	(100,000)	0.50	(445,000)	0.43
Outstanding, end of the period	1,046,200	\$ 0.32	1,066,200	\$ 0.35

As at December 31, 2009, 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	-
30,000	\$ 0.17	10-Aug-14	-
80,000	\$ 0.20	15-Nov-14	-
1,046,200			548,733

On November 16, 2009, the Company granted 80,000 stock options exercisable for a period of five years until November 15, 2014 at a price of \$0.20 per share.

During the quarter ended December 31, 2009, the amount of 80,000 options previously granted to the employees were forfeited due to the termination of the employments.

PYNG MEDICAL CORPORATION

Notes to Consolidated Financial Statements

For the Three Months Ended December 31, 2009 and 2008

(Expressed in Canadian Dollars)

17. SHARE CAPITAL (Continued)

e) Stock Options (Continued)

On August 11, 2009, the Company granted 30,000 stock options exercisable for a period of five years until August 10, 2014 at a price of \$0.17 per share.

On July 20, 2009, the Company granted 300,000 stock options exercisable for a period of five years until July 19, 2014 at a price of \$0.23 per share.

On May 19, 2009, the Company granted 50,000 stock options exercisable for a period of five years until May 18, 2014 at a price of \$0.20 per share.

On May 19, 2009, the Company granted 81,200 stock options exercisable for a period of four years until May 10, 2013 at a price of \$0.23 per share.

On September 9, 2008, the Company granted 60,000 stock options exercisable for a period of five years until September 8, 2013 at a price of \$0.41 per share.

On September 2, 2008, the Company granted 5,000 stock options exercisable for a period of five years until September 1, 2013 at a price of \$0.43 per share.

On June 19, 2008, the Company granted 20,000 stock options exercisable for a period of five years until June 18, 2013 at a price of \$0.54 per share.

On June 13, 2008, the Company granted 60,000 stock options exercisable for a period of five years until June 12, 2013 at a price of \$0.56 per share.

On June 2, 2008, the Company granted 80,000 stock options exercisable for a period of five years until June 1, 2013 at a price of \$0.49 per share.

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 in fiscal 2008 as a result of the expiry date extension.

On October 15, 2007, the Company granted 15,000 stock options exercisable for a period of two years until October 14, 2009 at a price of \$0.48 per share.

As at December 31, 2009, 548,334 (2008 - 741,667) stock options were vested and exercisable, and the fair value of \$21,798 (2008 - \$105,350) has been expensed as stock based compensation during this quarter.

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:

17. SHARE CAPITAL (Continued)

e) Stock Options (Continued)

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

18. EARNINGS PER SHARE

The following table shows the effect of dilutive securities on the weighted average common shares outstanding:

	December 31-2009	September 30-2009
Basic weighted average shares outstanding	12,001,583	12,001,583
Effect of dilutive securities		
Options	3,865	-
Diluted weighted average shares outstanding	12,005,448	12,001,583

19. SEGMENTED INFORMATION

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

20. 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.

21. 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 provision for the amount of \$60,573 (US\$56,494) has been recorded in accrued liabilities. As at December 31, 2009, there have been no legal proceedings filed against the Company.