

**PYNG MEDICAL CORP.**

**FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2007 AND 2006**



## AUDITORS' REPORT

To the Shareholders of  
Pyng Medical Corp.

We have audited the balance sheets of Pyng Medical Corp. as at September 30, 2007 and 2006, and the 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 financial statements present fairly, in all material respects, the financial position of the Company as at September 30, 2007 and 2006, 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 22, 2007

"Morgan & Company"

Chartered Accountants

**PYNG MEDICAL CORP.**

**BALANCE SHEETS**

	<b>SEPTEMBER 30</b>	
	<b>2007</b>	<b>2006</b>
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents	\$ 637,284	\$ 376,443
Short-term investments	150,000	50,000
Accounts receivable	1,038,498	551,558
Inventories (Note 4)	173,623	182,230
Prepaid expenses	35,768	24,235
	2,035,173	1,184,466
<b>Deferred Product Development Costs</b>	<b>2,027,876</b>	<b>2,130,833</b>
<b>Property, Plant And Equipment</b> (Note 6)	<b>151,271</b>	<b>164,913</b>
<b>Patents</b> (Note 7)	<b>129,599</b>	<b>141,052</b>
<b>Future Income Tax Assets</b> (Note 15)	<b>381,000</b>	<b>-</b>
	<b>\$ 4,724,919</b>	<b>\$ 3,621,264</b>
<b>LIABILITIES</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 431,617	\$ 239,599
Loan payable (Note 11)	-	89,324
Capital lease obligation (Note 12)	14,785	15,063
	446,402	343,986
<b>Capital Lease Obligation</b> (Note 12)	-	14,785
	<b>446,402</b>	<b>358,771</b>
<b>SHAREHOLDERS' EQUITY</b>		
<b>Share Capital</b> (Note 13)	<b>7,812,892</b>	<b>7,787,562</b>
<b>Contributed Surplus</b> (Note 13)	<b>333,854</b>	<b>201,948</b>
<b>Deficit</b>	<b>(3,868,229)</b>	<b>(4,727,017)</b>
	<b>4,278,517</b>	<b>3,262,493</b>
	<b>\$ 4,724,919</b>	<b>\$ 3,621,264</b>

Approved on behalf of the Board of Directors:

*"Kevin O'Neill"*

Director

*"David Christie"*

Director

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

# PYNG MEDICAL CORP.

## STATEMENTS OF INCOME AND DEFICIT

	YEARS ENDED SEPTEMBER 30	
	2007	2006
<b>Sales</b>	\$ 4,807,705	\$ 2,998,143
<b>Cost Of Sales</b>	1,479,856	963,955
<b>Gross Margin</b>	3,327,849	2,034,188
<b>Expenses</b>		
Advertising and promotion	97,886	51,859
Amortization of deferred product development costs	208,938	179,806
Amortization – other	73,458	72,254
Bad debts	-	1,217
Consulting and commissions	395,504	336,016
Foreign exchange loss	128,782	29,389
Interest and bank charges	17,260	28,969
Licenses and insurance	129,970	112,653
Meals and entertainment	22,778	12,592
Office and telephone	98,818	56,390
Professional fees	156,614	103,562
Rent and utilities	87,962	87,390
Repairs and maintenance	50,083	37,594
Research and development	146,896	81,599
Royalty (Note 9(b))	-	8,632
Stock based compensation	139,236	93,272
Transfer agent and shareholder information	37,067	32,250
Travel	183,417	108,611
Wages and benefits	875,392	531,335
	2,850,061	1,965,390
<b>Income From Operations</b>	477,788	68,798
<b>Income Tax Recovery (Provision)</b>		
Current	(281,000)	(143,000)
Future	662,000	143,000
	381,000	-
<b>Net Income For The Year</b>	858,788	68,798
<b>Deficit, Beginning Of Year</b>	(4,727,017)	(4,795,815)
<b>Deficit, End Of Year</b>	\$ (3,868,229)	\$ (4,727,017)
<b>Basic Earnings Per Share</b>	\$ 0.09	\$ 0.01
<b>Diluted Earnings Per Share</b>	\$ 0.09	\$ 0.01
<b>Basic Weighted Average Number Of Shares Outstanding</b>	9,909,090	9,891,172
<b>Diluted Weighted Average Number Of Shares Outstanding</b>	10,069,447	9,975,770

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

**PYNG MEDICAL CORP.**  
**STATEMENTS OF CASH FLOWS**

	<b>YEARS ENDED</b>	
	<b>SEPTEMBER 30</b>	
	<b>2007</b>	<b>2006</b>
<b>Cash Flows From Operating Activities</b>		
Net income for the year	\$ 858,788	\$ 68,798
Items not affecting cash:		
Amortization of deferred product development costs	208,938	179,806
Amortization - other	73,458	72,254
Stock based compensation	139,236	93,272
Accrued interest on capital lease obligation	1,648	2,684
Current income tax provision	281,000	143,000
Future income tax recovery	(662,000)	(143,000)
	<u>901,068</u>	416,814
Net change in non-cash working capital items:		
Accounts receivable	(486,940)	82,583
Inventories	8,607	127,781
Prepaid expenses	(11,533)	(4,432)
Accounts payable and accrued liabilities	172,018	(86,023)
	<u>583,220</u>	536,723
<b>Cash Flows From Financing Activities</b>		
Bank credit line	-	(135,023)
Payments on loan payable	(89,324)	(50,004)
Payments on capital lease obligation	(16,711)	(16,574)
Shares issued for cash	18,000	14,000
	<u>(88,035)</u>	(187,601)
<b>Cash Flows From Investing Activities</b>		
Purchase of short-term investments	(100,000)	(50,000)
Deferred product development costs incurred	(85,981)	-
Patent costs incurred	(9,026)	(55,386)
Acquisition of property, plant and equipment	(39,337)	(15,379)
	<u>(234,344)</u>	(120,765)
<b>Increase In Cash During The Year</b>	<b>260,841</b>	<b>228,357</b>
<b>Cash And Cash Equivalents, Beginning Of Year</b>	<b>376,443</b>	<b>148,086</b>
<b>Cash And Cash Equivalents, End Of Year</b>	<b>\$ 637,284</b>	<b>\$ 376,443</b>
<b>Supplemental Disclosure Of Cash Flow Information</b>		
Interest paid	\$ 9,835	\$ 19,925
Income taxes paid	-	-
<b>Non-Cash Financing and Investing Activities</b>		
Acquisition of equipment and software under capital lease	\$ -	\$ 45,000

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

# PYNG MEDICAL CORP.

## NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2007 AND 2006

### 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. The Company's principal business activity is the production and sale of the *FASTI*<sup>TM</sup> emergency medical systems.

### 2. NEWLY ADOPTED ACCOUNTING POLICIES

#### Financial Instruments

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

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

The new standards and policies are as follows:

#### i) Financial Instruments – Recognition and Measurement

In accordance with this new standard, the Company now classifies all financial instruments as either 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 operations for the period.

#### ii) Comprehensive Income

The 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 year ended September 30, 2007, the Company did not have any OCI. As a result, a separate Statement of Comprehensive Income is not presented.

# PYNG MEDICAL CORP.

## NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2007 AND 2006

### 2. NEWLY ADOPTED ACCOUNTING POLICIES (Continued)

#### iii) Hedges

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

### 3. SIGNIFICANT ACCOUNTING POLICIES

The 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 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) 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.

#### b) Inventories

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

#### c) Property, Plant and Equipment

Property, plant and equipment are recorded at cost with amortization provided for over the estimated useful lives of the assets at the following annual rates and methods:

Plant and 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

# PYNG MEDICAL CORP.

## NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2007 AND 2006

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### d) 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 3(c). Rental payments under operating leases are expensed as incurred.

#### e) Research and Development Costs

The Company has been in the process of researching and developing a medical device on the **FAST1™** emergency medical system. All product development and related administrative costs, incurred prior to and after commencement of commercial production, that meet the criteria of CICA Handbook Section 3450 – “Research and Development Costs”, have been capitalized. The accumulated capitalized costs are being amortized on a per unit basis based on the sales volume projection for the next 7 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™** system are expensed as incurred.

#### f) 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.

# PYNG MEDICAL CORP.

## NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2007 AND 2006

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### g) 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.

#### h) 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. No exercise or conversion is assumed during periods in which a net loss is incurred as the effect is anti-dilutive.

#### i) 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.

# PYNG MEDICAL CORP.

## NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2007 AND 2006

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### j) 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.

#### k) 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, property, plant and equipment, and patents. 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.

#### l) 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.

#### m) 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.

#### n) 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 adopted the Guideline effective October 1, 2005 and has determined that it does not have a primary beneficiary interest in VIEs.

#### o) Comparative Figures

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

# PYNG MEDICAL CORP.

## NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2007 AND 2006

### 4. INVENTORIES

	<u>2007</u>	<u>2006</u>
Raw materials and work in progress	<b>\$ 171,493</b>	\$ 175,965
Finished goods	<b>2,130</b>	6,265
	<b><u>\$ 173,623</u></b>	<b><u>\$ 182,230</u></b>

### 5. FINANCIAL INSTRUMENTS

The Company's financial instruments recognized in the balance sheet consist of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, bank credit line, loan payable, and capital lease obligation. The fair values of these instruments approximate their carrying values.

#### 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 line 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 FINANCIAL STATEMENTS

SEPTEMBER 30, 2007 AND 2006

### 6. PROPERTY, PLANT AND EQUIPMENT

	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
	<b>\$ 665,040</b>	<b>\$ 513,769</b>	<b>\$ 151,271</b>
	2006		
	COST	ACCUMULATED AMORTIZATION	NET BOOK VALUE
Furniture and office equipment	\$ 98,998	\$ 65,548	\$ 33,450
Medical equipment	288,177	211,441	76,736
Leasehold improvements	52,589	52,589	-
Computer equipment	47,326	33,122	14,204
Software	93,615	81,842	11,773
Equipment and software under capital lease	45,000	16,250	28,750
	<b>\$ 625,705</b>	<b>\$ 460,792</b>	<b>\$ 164,913</b>

During the 2006 year-end, the Company entered into a lease agreement to purchase a computer package for \$45,000, which includes licensed software, services and computer hardware. The agreement was classified as a capital lease and the full amount was included in equipment and software under capital lease.

### 7. PATENTS

	2007	2006
Patents	\$ 216,643	\$ 207,616
Less: Accumulated amortization	(87,044)	(66,564)
	<b>\$ 129,599</b>	<b>\$ 141,052</b>

# PYNG MEDICAL CORP.

## NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2007 AND 2006

### 8. BANK CREDIT LINE

The Company has established credit facilities for up to \$500,000 under a line of credit with its bank. The line of credit bears interest at prime plus  $\frac{3}{4}$ % per annum, is due on demand and secured under the general security agreement described in Note 11.

### 9. GOVERNMENT GRANTS

- a) The Department of Foreign Affairs and International Trade has agreed to provide financial assistance to the Company for a portion of the eligible costs incurred during May 2, 2002 to May 2, 2003 to a maximum of \$50,000 under the PEMD Program. The Company is required to repay the PEMD 4% of any incremental export sales over the base sales from the effective date of the agreement to May 2, 2006. The Company has a sales baseline of \$479,068 prior to any reimbursement under the PEMD program.

The Company reports the incremental export sales made to certain U.S. states to PEMD on an annual basis. The reports indicate incremental export sales to be less than baseline sales. Therefore, no payback to PEMD has been made at September 30, 2007 and 2006. The Company is contingently liable for repayment of the \$33,148 received under the program. The Company has not recorded any repayment provision in the financial statements, as repayment of the grant is determined to be unlikely.

A second PEMD application was made for a reimbursement of eligible costs incurred during August 11, 2003 to August 11, 2004. The Company received \$35,625 under the PEMD program during the year ending September 30, 2004. The Company is required to repay 4% of any incremental export sales on the yearly \$579,000 base sales amount from the effective date of the agreement to August 11, 2007. The Company reports incremental export sales to U.S. military units to PEMD and, thus far, the amounts have been less than baseline sales. Therefore, no payback has been made at September 30, 2007 and 2006. The Company is contingently liable for repayment of the \$35,625 received under the program. The Company has not recorded any repayment provision in the financial statements, as repayment of the grant is determined to be unlikely.

- b) Under the terms of a grant received from The Medical Devices Technology Assistance Program (MEDTAP), the Company is required to make payments based on 5% of annual sales related to its *FASTI*<sup>TM</sup> emergency medical system until the total of \$350,000 has been repaid. The total amount payable by the Company is not to exceed \$350,000 and no payments will be required for sales made later than October 2006. The repayment of this grant was completed on September 28, 2006 and no further amount was accrued in accounts payable as of September 30, 2007 and 2006.

# PYNG MEDICAL CORP.

## NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2007 AND 2006

### 10. 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 year ended September 30, 2007, consulting fees of \$156,870 (2006 - \$194,025), directors fees of \$8,252 (2006 - \$9,012), and commission of \$128,203 (2006 - \$115,088) were paid or accrued to the directors and a former director of the Company.

As at September 30, 2007, \$8,656 (2006 - \$58,603) was owing to directors for consulting fees, commissions, and expense reimbursements. The amount is included in accounts payable.

#### b) Contractual Commitments with Directors

The Company has a consulting contract with a director to pay \$55,000 per year in consulting fees. The contract expires on February 28, 2008.

### 11. LOAN PAYABLE

	<u>2007</u>	<u>2006</u>
The Company has a promissory note bearing interest at prime plus 1% per annum, repayable on demand. If payment is not otherwise demanded, monthly principal payments of \$4,167 plus interest are required. The note is secured by a general security agreement over all the assets and undertakings of the Company.	\$ -	\$ 89,324

### 12. CAPITAL LEASE OBLIGATION

	<u>2007</u>	<u>2006</u>
Capital lease, bearing interest at prime plus 2%, payable in monthly instalments of \$1,393, secured by computer hardware and licensed software, maturing in August 2008.	\$ 14,785	\$ 29,848
Less: Current portion	<u>(14,785)</u>	<u>(15,063)</u>
	<u>\$ -</u>	<u>\$ 14,785</u>

**PYNG MEDICAL CORP.**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2007 AND 2006**

**12. CAPITAL LEASE OBLIGATION** (Continued)

The required future lease payments are as follows:

2008	\$ 15,318
Less: Imputed interest	<u>(533)</u>
	<u>\$ 14,785</u>

**13. 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, 2005	13,581,583	\$ 7,754,551	\$ 127,687
Shares issued for cash – exercise of stock options	70,000	14,000	-
Exercise of stock options – option valuation	-	19,011	(19,011)
Stock based compensation	-	-	<u>93,272</u>
Balance, September 30, 2006	13,651,583	7,787,562	201,948
Shares issued for cash – exercise of stock options	40,000	18,000	-
Exercise of stock options – option valuation	-	7,330	(7,330)
Stock based compensation	-	-	<u>139,236</u>
Balance, September 30, 2007	<u>13,691,583</u>	<u>\$ 7,812,892</u>	<u>\$ 333,854</u>

# **PYNG MEDICAL CORP.**

## **NOTES TO FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2007 AND 2006**

### **13. SHARE CAPITAL (Continued)**

#### b) Issued and Outstanding (Continued)

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

In February 2006, the Company issued 20,000 shares, for stock options at \$0.20 per share for total proceeds of \$4,000.

In October 2005, the Company issued 50,000 shares, for stock options at \$0.20 per share for total proceeds of \$10,000.

#### c) Escrow Shares

As of September 30, 2007 and 2006, 3,750,000 shares were held in escrow, their release being subject to approval of the TSX Venture Exchange based upon cumulative operating cash flows of the Company. The escrow agreement expires in May 2008.

#### d) Warrants

As of September 30, 2007 and 2006, the Company did not have any warrants outstanding.

### **14. STOCK OPTIONS**

At September 30, 2007 and 2006, 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.

**PYNG MEDICAL CORP.**

**NOTES TO FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2007 AND 2006**

**14. STOCK OPTIONS** (Continued)

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

	2007		2006	
	NUMBER	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER	WEIGHTED AVERAGE EXERCISE PRICE
Outstanding, beginning of year	900,000	\$ 0.53	455,000	\$ 0.41
Granted	520,000	0.41	820,000	0.52
Exercised	(40,000)	0.45	(70,000)	0.20
Expired	(60,000)	0.75	(305,000)	0.37
Forfeited	(300,000)	0.51	-	0.75
Outstanding, end of year	<u>1,020,000</u>	\$ 0.47	<u>900,000</u>	\$ 0.53

As at September 30, 2007, the following stock options were outstanding:

OPTIONS OUTSTANDING			OPTIONS EXERCISABLE
NUMBER OF SHARES	EXERCISE PRICE	EXPIRY DATE	NUMBER OF SHARES
150,000	\$ 0.75	October 12, 2007	150,000
320,000	\$ 0.45	May 23, 2008	200,000
20,000	\$ 0.43	July 16, 2008	13,333
20,000	\$ 0.42	August 14, 2008	13,333
10,000	\$ 0.34	August 23, 2008	6,667
300,000	\$ 0.40	November 19, 2008	100,000
60,000	\$ 0.35	December 12, 2008	20,000
20,000	\$ 0.36	March 6, 2009	20,000
20,000	\$ 0.46	May 6, 2009	-
50,000	\$ 0.50	September 12, 2009	-
50,000	\$ 0.49	September 20, 2009	-
<u>1,020,000</u>			<u>523,333</u>

As at September 30, 2007, 523,333 stock options were vested and exercisable, and the fair value of \$139,236 has been expensed as stock based compensation.

# PYNG MEDICAL CORP.

## NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2007 AND 2006

### 14. STOCK OPTIONS (Continued)

Subsequent to year-end, 15,000 stock options were granted at an exercise price of \$0.48 per share expiring on October 14, 2009; 20,000 stock options were exercised at \$0.36 per share; and 150,000 stock options at an exercise price of \$0.75 per share expired unexercised.

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 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Dividend yield	Nil	Nil
Expected volatility	75%-103%	79%-106%
Risk-free interest rate	3.72%	3.72%
Expected life	1.5 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>2007</u>	<u>2006</u>
Statutory tax rate	34%	34%
Income tax provision at statutory rate	\$ 170,000	\$ 23,000
Permanent differences and other	54,000	26,000
Tax losses expired	104,000	106,000
Effect of change in tax rate	-	48,000
Decrease in valuation allowance	<u>(709,000)</u>	<u>(203,000)</u>
Income tax recovery	<u>\$ (381,000)</u>	<u>\$ -</u>

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### 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 temporary differences that give rise to future income tax assets at September 30, 2007 and 2006 are as follows:

	<u>2007</u>	<u>2006</u>
Future income tax assets:		
Non-capital losses carried forward	\$ 525,000	\$ 910,000
Property, plant and equipment	90,000	72,000
Deferred product development costs	(261,000)	(296,000)
Patents	27,000	23,000
	<hr/>	<hr/>
Net future income tax assets	381,000	709,000
Valuation allowance	-	(709,000)
	<hr/>	<hr/>
	\$ 381,000	\$ -

The Company has temporary differences between the tax and accounting bases of assets. In addition, the Company has tax losses carried forward from prior years (which can be used to reduce future years' taxable income and expire between 2008 and 2014), which totaled approximately \$1,539,000 (2006 - \$2,667,000).

### 16. ECONOMIC DEPENDENCE

The Company presently derives a substantial amount of its revenue from one distributor which contributed approximately 78% (2006 - 79%) of revenue in the year ended September 30, 2007. 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 91% (2006 - 68%) of the accounts receivable balance at September 30, 2007.

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### 17. SEGMENTED INFORMATION

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

		<u>2007</u>		<u>2006</u>
USA	93%	\$ 4,456,707	97%	\$ 2,913,460
Other	7%	<u>350,998</u>	3%	<u>84,683</u>
		<u>\$ 4,807,705</u>		<u>\$ 2,998,143</u>

### 18. COMMITMENTS

The Company has a five-year lease commitment on its Richmond production premises. The Company is required to pay 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>2007</u>	<u>2006</u>
Basic weighted average shares outstanding	<b>9,909,090</b>	9,891,172
Effect of dilutive securities:		
Options	<u>160,357</u>	84,598
Diluted weighted average shares outstanding	<u><b>10,069,447</b></u>	<u>9,975,770</u>