

PYNG MEDICAL



Saving Lives in Seconds™

Report for the Years Ended September 30, 2011 and 2010

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PYNG MEDICAL CORP.

CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended September 30, 2011 and 2010

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The consolidated financial statements of P yng Medical Corp., have been prepared by management in accordance with Canadian generally accepted accounting principles. The integrity and objectivity of data in these consolidated financial statements are management's responsibility. Management is also responsible for all other financial information contained elsewhere in this report, and for ensuring that this information is consistent, where appropriate, with the information and data contained in the consolidated financial statements.

Management maintains systems of internal control designed to provide reasonable assurance that the assets are safeguarded from loss or unauthorized use and to produce reliable accounting records for financial reporting purposes. All transactions are authorized and duly recorded, and financial records are properly maintained to facilitate the presentation of consolidated financial statements in a timely manner. The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting, oversees management's responsibilities for financial reporting and is ultimately responsible for reviewing and approving the consolidated financial statements. The Board carries out this responsibility principally through the Audit Committee.

The Audit Committee of the Board of Directors has reviewed the consolidated financial statements with management and the external auditors. Morgan & Company, an independent firm of chartered accountants, appointed as external auditors by the shareholders, has audited the consolidated financial statements and their report is included herein. The external auditors have full access to management and the Audit Committee with respect to their findings concerning the fairness of financial reporting and the adequacy of internal controls.

"Mark Hodge" (signed)

Mark Hodge

President and Chief Executive Officer

"George Dorin" (signed)

George Dorin

Chief Financial Officer

January 10, 2012



INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Pyng Medical Corp.

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Pyng Medical Corp., which comprise the consolidated balance sheets as at September 30, 2011 and 2010 and the consolidated statements of operations and comprehensive loss, cash flows, and shareholders' equity for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Pyng Medical Corp. as at September 30, 2011 and 2010, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Emphasis of matter

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which describes matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

Vancouver, Canada

January 10, 2012

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MEMBER OF



"Morgan & Company"

Chartered Accountants

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PYNG MEDICAL CORP.**Consolidated Balance Sheets**

As at September 30, 2011 and 2010

(Expressed in Canadian Dollars)

| ASSETS | 2011 | | 2010 | |
|---|-------------|------------------|-------------|------------------|
| Current | | | | |
| Cash | \$ | 195,414 | \$ | 282,993 |
| Accounts receivable | | 606,358 | | 1,211,408 |
| Other receivable | | 76,763 | | 69,435 |
| Inventories (Note 7) | | 1,036,492 | | 441,063 |
| Prepaid expenses | | 129,027 | | 68,325 |
| | | 2,044,054 | | 2,073,224 |
| Deferred product development costs (Note 8) | | 4,040,861 | | 3,023,044 |
| Property and equipment (Note 10) | | 126,942 | | 151,734 |
| Website development costs (Note 11) | | 24,268 | | 48,537 |
| Patents (Note 12) | | 304,479 | | 262,281 |
| Intellectual property rights (Note 13) | | 2,408,758 | | 2,520,567 |
| | \$ | 8,949,362 | \$ | 8,079,387 |
| LIABILITIES | | | | |
| Current | | | | |
| Bank line of credit (Note 14) | \$ | 326,427 | \$ | 258,081 |
| Accounts payable | | 1,027,034 | | 422,626 |
| Accrued liabilities | | 417,922 | | 350,011 |
| Loan payable (Note 15) | | 158,961 | | 281,251 |
| | | 1,930,344 | | 1,311,969 |
| Loan payable (Note 15) | | - | | 204,058 |
| Convertible debentures (Note 16) | | 363,874 | | 306,454 |
| Other long-term liabilities (Note 17) | | 668,318 | | 656,587 |
| Future income tax liabilities (Note 19) | | 440,000 | | 461,000 |
| | | 3,402,536 | | 2,940,068 |
| SHAREHOLDERS' EQUITY | | | | |
| Equity portion of convertible debentures | | 191,825 | | 191,825 |
| Share capital (Note 18) | | 8,422,339 | | 7,844,724 |
| Contributed surplus (Note 18) | | 649,039 | | 624,963 |
| Deficit | | (3,716,377) | | (3,522,193) |
| | | 5,546,826 | | 5,139,319 |
| | \$ | 8,949,362 | \$ | 8,079,387 |

Nature and continuance of operations (Note 1)

Commitments (Note 22)

Approved on behalf of the board

"L.J. (Bud) Evans"

Director

"Herbert A. Toms III"

Director

See accompanying notes to the consolidated financial statements

PYNG MEDICAL CORP.

Consolidated Statements of Operations and Comprehensive Loss

For the Years Ended September 30, 2011 and 2010

(Expressed in Canadian Dollars, except number of shares)

| | 2011 | 2010 |
|--|---------------------|---------------------|
| Sales | \$ 6,050,421 | \$ 7,088,837 |
| Cost of goods sold | 2,195,400 | 2,254,298 |
| Gross margin | 3,855,021 | 4,834,539 |
| Expenses | | |
| Advertising and promotion | 69,904 | 31,790 |
| Amortization of deferred product development costs (Note 8) | 303,158 | 336,797 |
| Amortization of patents and intellectual property rights (Note 12, 13) | 199,840 | 46,412 |
| Amortization on website development cost | 24,268 | 9,707 |
| Amortization - other | 81,634 | 86,508 |
| Consulting fees | 438,297 | 341,038 |
| Foreign exchange loss (gain) | 93,920 | 45,838 |
| Interest and bank charges (Note 14) | 33,169 | 31,476 |
| Interest on convertible debenture (Note 16) | 103,398 | 98,764 |
| Interest on long-term debt (Note 15) | 36,359 | 62,069 |
| Licenses and insurance | 159,723 | 154,294 |
| Meals and entertainment | 20,010 | 44,668 |
| Office and telephone | 168,038 | 122,791 |
| Quality assurance regulatory requirements | 6,183 | 35,348 |
| Professional fees | 158,757 | 374,281 |
| Rent and utilities | 110,029 | 113,911 |
| Repairs and maintenance | 40,424 | 37,463 |
| Research & development | 37,409 | 14,481 |
| Royalties | 15,294 | 7,189 |
| Stock based compensation (Note 18(e)) | 24,076 | 72,482 |
| Transfer agent & shareholder information | 25,523 | 23,296 |
| Travel | 148,309 | 283,065 |
| Wages and benefits | 1,772,483 | 2,068,456 |
| | 4,070,205 | 4,442,124 |
| (Loss) income from operations | (215,184) | 392,415 |
| Current income tax expense | - | 27,000 |
| Future income tax (recovery) expense | (21,000) | 82,000 |
| | (21,000) | 109,000 |
| Net (loss) income and comprehensive (loss) income for the year | \$ (194,184) | \$ 283,415 |
| (Loss) earnings per share | | |
| Basic | \$ (0.01) | \$ 0.02 |
| Diluted | (0.01) | 0.02 |
| Weighted average number of shares outstanding | | |
| Basic | 14,261,857 | 12,001,583 |
| Diluted | 14,261,857 | 12,004,015 |

See accompanying notes to the consolidated financial statements

PYNG MEDICAL CORP.

Consolidated Statements of Cash Flows

For the Years Ended September 30, 2011 and 2010

(Expressed in Canadian Dollars)

| | 2011 | 2010 |
|--|--------------------|-------------------|
| Cash provided from (used for) | | |
| Operating activities | | |
| Net (loss) income for the year | \$ (194,184) | \$ 283,415 |
| Items not involving cash | | |
| Amortization of deferred product development costs | 303,158 | 336,797 |
| Amortization of patents and intellectual property rights | 199,840 | 46,412 |
| Amortization of website development costs | 24,268 | 9,707 |
| Amortization - other | 81,634 | 86,508 |
| Accreted interest on convertible debentures | 35,352 | 32,417 |
| Stock-based compensation | 24,076 | 72,482 |
| Income tax (recovery) expense | (21,000) | 109,000 |
| Unrealized foreign exchange loss | 95,915 | 19,160 |
| | 549,059 | 995,898 |
| Net change in non-cash working capital items | | |
| Accounts receivable | 597,774 | (364,336) |
| Other receivable | (7,328) | (45,614) |
| Inventories | (477,616) | 19,224 |
| Prepaid expenses | (60,702) | 11,828 |
| Accounts payable and accrued liabilities | 36,567 | 171,335 |
| | 637,754 | 788,335 |
| Financing activities | | |
| Drawn down from bank line of credit | 68,346 | 258,081 |
| Repayment on loan payable | (326,349) | (256,697) |
| Proceeds from common shares issued | 600,000 | - |
| Share issuance cost | (22,385) | - |
| | 319,612 | 1,384 |
| Investing activities | | |
| Deferred product development costs incurred | (850,382) | (511,506) |
| Patent costs incurred | (73,193) | (75,055) |
| Website development cost incurred | (23,497) | (34,747) |
| Acquisition of property and equipment | (34,774) | (7,386) |
| Additions to intellectual property rights | (32,120) | (13,383) |
| | (1,013,966) | (642,077) |
| Effect of exchange rate changes on cash | (30,979) | (17,180) |
| (Decrease) increase in cash | (87,579) | 130,462 |
| Cash, beginning of year | 282,993 | 152,531 |
| Cash, end of year | \$ 195,414 | \$ 282,993 |
| Supplemental information | | |
| Interest paid | \$ 114,919 | \$ 138,047 |

See accompanying notes to the consolidated financial statements

PYNG MEDICAL CORP.

Consolidated Statements of Shareholders' Equity

For the Years Ended September 30, 2011 and 2010

(Expressed in Canadian Dollars)

| | <u>Share Capital</u> | | Contributed Surplus | Equity Portion of Convertible Debentures | Accumulated Deficit | Total Shareholders' Equity (Deficiency) |
|---|----------------------|---------------------|------------------------|---|------------------------|---|
| | Number of Shares | Amount | | | | |
| Balance as of September 30, 2009 | 12,001,583 | \$ 7,844,724 | \$ 552,481 | \$ 191,825 | \$ (3,805,608) | \$ 4,783,422 |
| Stock-based compensation on options granted | - | - | 72,482 | - | - | 72,482 |
| Net income for the year | - | - | - | - | 283,415 | 283,415 |
| Balance as of September 30, 2010 | 12,001,583 | 7,844,724 | 624,963 | 191,825 | (3,522,193) | 5,139,319 |
| Shares issued for cash, gross proceeds | 3,000,000 | 600,000 | - | - | - | 600,000 |
| Share issuance cost | - | (22,385) | - | - | - | (22,385) |
| Stock-based compensation on options granted | - | - | 24,076 | - | - | 24,076 |
| Net loss for the year | - | - | - | - | (194,184) | (194,184) |
| Balance as of September 30, 2011 | 15,001,583 | \$ 8,422,339 | \$ 649,039 | \$ 191,825 | \$ (3,716,377) | \$ 5,546,826 |

See accompanying notes to the consolidated financial statements

PYNG MEDICAL CORP.

Notes to Consolidated Financial Statements

For the Years Ended September 30, 2011 and 2010

(Expressed in Canadian Dollars)

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 developing **FASTx™** Sternal Intraosseous Device, 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 and opened an office in Kirkland, Washington in February 2010.

As at September 30, 2011, the Company has cash in the amount of \$195,414 (2010 - \$282,993) and working capital in the amount of \$113,710 (2010 - \$761,255). The Company is currently pursuing additional debt and equity financing to fund its working capital needs.

These 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. 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 when they become due. Management plans to secure the necessary financing through the combination of new credit facilities and issuance of new equity or convertible debt instruments. There can be no assurance that these initiatives will be successful.

2. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of the Company have been prepared in accordance with Canadian generally accepted accounting principles (“GAAP”). 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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

b) Use of Estimates (Continued)

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 for property and equipment, deferred product development costs and intellectual property rights, impairment of long-lived assets, estimates of accounts payable and accrued liabilities, the assumptions used in the determination of fair value of stock-based compensation, and the determination of 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. As at September 30, 2011 and 2010, the Company did not have any cash equivalents.

d) Inventories

Raw materials, work-in-progress and finished goods are measured at the lower of cost, determined on a weighted average basis, and net realizable value.

The net realizable value of inventory is generally considered to be the selling price in the ordinary course of business less the estimated costs of completion and estimated costs to make the sale.

The amount of any write-down of inventories to net realizable value and all loss of inventories is recognized as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realizable value, is recognized as a reduction in the amount of inventories recognized as an expense in the period in which the reversal occurs.

e) Property and Equipment

Property and equipment 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 improvements | 30% | Straight-line |
| Software | 100% | Straight-line |

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

f) Research and Development Costs

The Company has been in the process of researching and developing a medical device on the *FASTI*TM Intraosseous Infusion System. All product development costs 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*TM Intraosseous Infusion System are expensed as incurred. In prior years, the accumulated capitalized costs were being amortized on a per unit basis based on the sales volume projection for the remaining estimated useful life of the product. During fiscal 2011, the Company changed the amortization method to straight line to better reflect the pattern of realization of the future economic benefits. The effects in the current and future periods are disclosed in Note 8.

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*TM Cricothyrotomy System as part of an asset acquisition, and began the development of *FASTx*TM Sternal Intraosseous Device. All the development costs incurred that meet the criteria of intangible assets per CICA Handbook Section 3064 have been capitalized and will be amortized upon commercial production.

g) Website Development Costs

Website development costs are stated at acquisition cost less accumulated amortization. Amortization is calculated over the estimated useful life of three years using the straight line method. Website hosting and maintenance costs are charged to operations.

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®, FASTINFO and CRICTM have been capitalized. During fiscal 2011, the Company changed the estimated useful life of these intellectual property rights from indefinite to 15 years based on the current market demand and other economic factors. The effects in the current and future periods are disclosed in Note 13.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

j) 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.

k) 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. Stock options issued to outside consultants that vest over time are valued at the grant date and subsequently re-valued on each vesting date as services are rendered. 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.

l) Fair Value of Warrants

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

m) 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.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

n) 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.

o) 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.

p) Impairment of long-lived assets

On an annual basis and when impairment indicators arise, the Company evaluates the future recoverability of its long-lived assets, including deferred product development costs, property and equipment, website development costs, 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 future cash flows is less than the carrying amount of the assets, an impairment loss 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.

Intangible assets with indefinite useful lives are not amortized and are tested for impairment annually, or more frequent, if events or changes in circumstances indicate that the asset may be impaired. The impairment test compares the carrying amount of the intangible asset with its fair value, and an impairment loss is reorganized in income for the excess, if any.

As at September 30, 2011 and 2010, there has been no impairment loss recognized.

q) 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.

Financial statements of integrated subsidiaries, denominated in foreign currencies, are translated using the temporal method as follows:

PYNG MEDICAL CORP.

Notes to Consolidated Financial Statements

For the Years Ended September 30, 2011 and 2010

(Expressed in Canadian Dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

q) Foreign Currency Translation (Continued)

- Monetary assets and liabilities at the rate prevailing at the balance sheet date
- Non-monetary assets and liabilities at historical rates
- Revenue and expenses at the rate of exchange in effect at the date of the transaction.

Any gains or losses resulting from translation have been included in the determination of income.

r) 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.

s) Comprehensive Income

The Company adopts CICA Handbook Section 1530, “Comprehensive Income”, which establishes standards for reporting and presenting comprehensive income, defined as the change in equity from transactions and other events from non-owner sources. Comprehensive income includes both net earnings and other comprehensive income. Other comprehensive income (“OCI”) includes holding gains and losses on available-for-sale investments, gains and losses on certain derivative financial instruments and foreign currency gains and losses relating to self-sustaining foreign operations, all of which are not included in the calculation of net earnings until realized. The cumulative changes in other comprehensive loss are included in accumulated other comprehensive loss, which is a separate category within shareholders’ equity in the consolidated balance sheet.

t) Financial Instruments

All financial instruments are classified into one of these five categories: held-for-trading, held-to-maturity investments, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments and derivatives are measured on the trade date at fair value upon initial recognition. Subsequent measurement depends on the initial classification of the instrument. Held-for-trading financial assets are measured at fair value, with changes in fair value recognized in net earnings (loss). Available-for-sale financial instruments are measured at fair value, with changes in fair value recorded in OCI until the instrument is derecognized or impaired. Loans and receivables, held-to-maturity investments and other financial liabilities are measured at amortized cost. The transaction costs are expensed as incurred for financial instruments classified as held-for-trading. For other financial instruments, the transaction costs are presented as a reduction of the underlying financial instruments and expensed using the straight line method.

The Company’s financial assets and liabilities are initially recorded at fair value and subsequently measured based on their assigned classifications as follows:

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

t) Financial Instruments (Continued)

| Asset/Liability | Category | Measurement |
|--|-----------------------|--------------------|
| Cash | Held-for-trading | Fair value |
| Accounts receivable | Loans and receivables | Amortized cost |
| Other receivable | Loans and receivables | Amortized cost |
| Bank line of credit | Other liabilities | Amortized cost |
| Accounts payable and accrued liabilities | Other liabilities | Amortized cost |
| Loan payable | Other liabilities | Amortized cost |
| Convertible debentures | Other liabilities | Amortized cost |
| Other long-term liabilities | Other liabilities | Amortized cost |

Financial instruments that comprise a liability component and equity components are classified separately on the balance sheet on initial recognition in accordance with the substance of the contractual agreement.

The CICA amended Handbook Section 3862, “Financial Instruments – Disclosures”. The amendments provide for additional fair value measurements for financial instruments and liquidity risk disclosures. These amendments require a three level hierarchy that reflects the significance of the inputs used in making the fair value measurements:

Level 1 – observable inputs such as quoted price in active markets;

Level 2 – inputs, other than the quoted market prices in active markets, which are observable, either directly or indirectly,

Level 3 – unobservable inputs for the assets or liabilities in which little or no market data exists, therefore require an entity to develop its own assumptions.

The required disclosures have been inserted in Note 6.

u) 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 VIE’s.

v) Comparative Figures

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

3. CHANGES IN ACCOUNTING POLICIES

a) 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 adoption of this pronouncement had no impact on the Company’s financial statements.

b) Consolidated Financial Statements and Non-controlling Interests

Section 1601, “Consolidated Financial Statements”, and 1602, “Non-Controlling Interests”, change the accounting and reporting of ownership in interests in subsidiaries held by parties other than the parent. Non-controlling interests are to be presented in the consolidated statement of financial position (balance sheet) within equity, but separately from the parent’s equity. The amount of consolidated net income attributable to the parent and to the non-controlling interest is to be clearly identified and presented on the face of the consolidated statement of operations. In addition, these pronouncements establish standards for a change in a parent’s ownership interest in a subsidiary and the valuation of retained non-controlling equity investments when a subsidiary is deconsolidated. They also establish reporting requirements for providing sufficient disclosures that clearly identify and distinguish between the interests of the parent and the interest of the non-controlling owners. The adoption of these pronouncements had no impact on the Company’s financial statements.

4. FUTURE ACCOUNTING PRONOUNCEMENTS

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 January 1, 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada’s own GAAP. For the Company, the date of transition to IFRS is October 1, 2010. The first interim and annual financial statements for fiscal year beginning October 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended September 30, 2011.

The Company has developed a three-phase implementation plan to facilitate the transition and the convergence process has been conducted as planned. Effective October 1, 2011, the Company will

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Notes to Consolidated Financial Statements

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(Expressed in Canadian Dollars)

4. FUTURE ACCOUNTING PRONOUNCEMENTS (Continued)

adopt IFRS as the basis for preparing the financial statements. The Company will report interim and annual financial statements, with comparatives in accordance with IFRS beginning with the quarter ending December 31, 2011.

5. 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. 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 a planning and budgeting process in place to help determine the funds required to ensure the Company has the appropriate liquidity to meet its operating and growth objectives.

6. FINANCIAL INSTRUMENTS AND RISKS

As at September 30, 2011 and 2010, the Company's financial instruments recognized on the balance sheet consist of cash and cash equivalents, accounts receivable, other receivables, accounts payable and accrued liabilities, bank credit facility, loan payable, convertible debentures and other long-term liabilities.

In accordance with CICA Section 3862, "Financial Instruments – Disclosures", the Company has classified fair value measurement using three-level hierarchies. Pursuant to Section 3862, fair value of assets and liabilities measured on a recurring basis include cash determined based on Level 1 inputs, which consist of quoted prices in active markets for identical assets.

The fair value of the Company's cash, accounts receivable, other receivables, accounts payable, bank line of credit, accrued liabilities and the bank loan, approximate the carrying amounts due to their short-term nature. The fair value of the liability component of the convertible debenture was estimated by discounting future cash flow at the current market interest rates for agreements covering

6. FINANCIAL INSTRUMENTS AND RISKS (Continued)

similar investments. Based on the quoted interest rates for borrowings of companies of similar level risk, in management's estimation, the carrying value of the liability component of the convertible debenture approximates fair value. For the fair value of other long-term liabilities, it is impractical to estimate due to the nature of the financial instruments and the absence of the information needed.

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's exposure to credit risk related to accounts receivable arises from the possibility that a customer does not fulfil its obligation. This is minimized through certain credit evaluation procedures and limits on the amount of credit extended as deemed necessary. The Company does not require collateral for financial instruments subject to credit risk. The maximum exposure to credit risk is the net carrying value of accounts receivable.

Credit risk also arises from cash with banks and financial institutions. This risk is limited because the counterparties are mainly Canadian banks with high credit rating. To minimize the risk, cash has been deposited in major financial institutions in Canada (subject to deposit insurance up to \$100,000). The Company also acquires accounts receivable insurance coverage to mitigate collection risks.

The Company's credit risk for accounts receivable is concentrated, as the Company presently derives a substantial amount of its revenues from one distributor which contributed approximately 70% (2010 - 78%) of revenues for the year ended September 30, 2011. 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 57% (2010 - 79%) of the accounts receivable balance as at September 30, 2011.

b) Foreign Exchange Risk

The Company uses the Canadian dollar as its reporting currency for these consolidated financial statements. The Company's revenues are denominated primarily in U.S. dollars, giving rise to the exposure to market risks from changes in foreign exchange rates. The Company is exposed to foreign currency fluctuation on its cash, accounts receivable, accounts payable, accrued liabilities as well as certain operating expenses and its other long-term liabilities. If the Canadian dollar appreciated one percent against U.S. dollar, with all other variables remain constant, the net income would have been increased by approximately \$7,000 (2010 - decreased by \$4,000). If the Canadian dollar depreciated one percent against US dollar, there would be an equal and opposite impact on net income.

PYNG MEDICAL CORP.*Notes to Consolidated Financial Statements**For the Years Ended September 30, 2011 and 2010**(Expressed in Canadian Dollars)***6. FINANCIAL INSTRUMENTS AND RISKS (Continued)****b) Foreign Exchange Risk (Continued)**

During fiscal 2011, the Company entered into foreign currency forward contracts to protect itself against foreign exchange rate fluctuations. The Company's objective is to manage and control the exposures and secure the Company's profitability on existing sales and anticipated future cash flows. The Company does not utilize derivative instruments for trading or speculative purposes.

The forward foreign exchange contracts primarily require the Company to sell U.S. dollars for Canadian dollars at contractual rates. As at September 30, 2011, all the forward contracts the Company entered into were settled.

c) Liquidity Risk

Liquidity risk is the risk the Company may not be able to meet its contractual obligations and financial liabilities as they become due. The Company is exposed to liquidity risk as its continued operations are dependent upon the Company realizing its accounts receivable and the ability to issue debt and equity instruments to satisfy its liabilities as they become due.

The Company controls liquidity risk by management of working capital, cash flow and availability of borrowing facilities. The customer credit evaluations are conducted based on trade references, bank reports, and periodic review of customers' payment patterns to ensure irregularities are addressed promptly. As at September 30, 2011, the Company has cash of \$195,414 (2010 - \$282,993) and working capital of \$113,710 (2010 - \$761,255). The significant decline in working capital was caused by the decrease in sales combined with FASTx re-launch costs. The Company is actively pursuing new financing to continue the FASTx re-launch project (estimated at \$2 million) and for general working capital purposes. There are no certain that such new financing can be obtained.

The following is an analysis of the contractual maturities of the Company's financial liabilities as at September 30, 2011:

| | Due by period | | | | | | |
|--|---------------|--------------|----------|------------|----------|----------|---------|
| | Total | <1 year | 1-2 year | 2-3 year | 3-4 year | 4-5 year | >5 year |
| Accounts payable and accrued liabilities | 1,444,956 | 1,444,956 | - | - | - | - | - |
| Bank line of credit | 326,427 | 326,427 | - | - | - | - | - |
| Loan payable | 158,961 | 158,961 | - | - | - | - | - |
| Convertible debenture | 363,874 | - | - | 363,874 | - | - | - |
| Operating lease | 53,484 | 53,484 | - | - | - | - | - |
| Product development | 639,537 | 639,537 | - | - | - | - | - |
| | \$ 2,987,239 | \$ 2,623,365 | \$ - | \$ 363,874 | \$ - | \$ - | \$ - |

PYNG MEDICAL CORP.

Notes to Consolidated Financial Statements

For the Years Ended September 30, 2011 and 2010

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6. FINANCIAL INSTRUMENTS AND RISKS (Continued)

d) Interest Rate Risk

Bank line of credit, loan payable 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. The Company has estimated that one percent increase or decrease in the prime rate would have caused the net income decrease or increase by approximately \$8,000 (2010 - \$19,000).

7. INVENTORIES

| | 2011 | | 2010 | |
|------------------------------------|------|-----------|------|---------|
| Raw materials and work in progress | \$ | 438,511 | \$ | 407,002 |
| Inventory in transit | | 58,613 | | 1,426 |
| Finished goods | | 539,368 | | 32,635 |
| | \$ | 1,036,492 | \$ | 441,063 |

During the year ended September 30, 2011, \$1,702,492 (2010 - \$1,890,819) of inventories were recognized as cost of goods sold which included the inventory written-off \$12,956 (2010 - Nil).

8. DEFERRED PRODUCT DEVELOPMENT COSTS

| | 2011 | | 2010 | |
|------------------------------------|------|-------------|------|-------------|
| Deferred product development costs | \$ | 6,896,902 | \$ | 5,575,926 |
| Less: accumulated amortization | | (2,856,041) | | (2,552,882) |
| | \$ | 4,040,861 | \$ | 3,023,044 |

During fiscal 2011, the Company changed the amortization method for *FASTI*TM to straight line to better reflect the pattern of realization of the future economic benefits. This revision is accounted for prospectively as a change in accounting estimates as per CICA Handbook Section 1506, "Accounting Changes". The amortization of product development costs is now amortized straight line until fiscal 2014, the end of the estimated useful life of the product. As a result, net income of fiscal 2011 was increased by \$68,859. This change will also increase net income of fiscal 2012 by \$7,032 and decrease net income of fiscal 2013 and 2014 by \$23,987 and \$51,904 respectively.

As of September 30, 2011, the deferred product development costs related to *CRIC*TM and *FASTx*TM in the amount of \$416,559 (2010 - \$344,964) and \$2,714,827 (2010 - \$1,465,446) respectively have not been amortized since they are still under development and will be amortized upon commercial production..

9. GOVERNMENT ASSISTANCE

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*TM. In fiscal 2009, the Company received a total reimbursement of \$300,364 (US\$253,162); and an amount of \$38,136 (US\$35,568) was receivable as of September 30, 2009. These amounts were recorded as reduction of deferred product development

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Notes to Consolidated Financial Statements

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9. GOVERNMENT ASSISTANCE (Continued)

costs in 2009. During the fiscal year 2010, the Company received the outstanding amount of \$38,136 (US\$35,368).

10. PROPERTY AND EQUIPMENT

| 2011 | Cost | Amortization | Net Book Value |
|--------------------------------|-------------|---------------------|-----------------------|
| Furniture and office equipment | 179,150 | 130,698 | 48,452 |
| Medical equipment | 312,722 | 276,544 | 36,178 |
| Computer equipment | 119,711 | 77,628 | 42,083 |
| Leasehold improvements | 108,190 | 108,190 | - |
| Software | 221,210 | 220,981 | 229 |
| | \$ 940,983 | \$ 814,041 | \$ 126,942 |

| 2010 | Cost | Amortization | Net Book Value |
|--------------------------------|-------------|---------------------|-----------------------|
| Furniture and office equipment | 179,150 | 118,585 | 60,565 |
| Medical equipment | 312,722 | 267,500 | 45,222 |
| Computer equipment | 87,935 | 66,402 | 21,533 |
| Leasehold improvements | 108,190 | 86,288 | 21,902 |
| Software | 218,214 | 215,702 | 2,512 |
| | \$ 906,211 | \$ 754,477 | \$ 151,734 |

11. WEBSITE DEVELOPMENT COSTS

| | 2011 | 2010 |
|--------------------------------|-------------|-------------|
| Website development costs | \$ 58,244 | \$ 58,244 |
| Less: accumulated amortization | (33,976) | (9,707) |
| | \$ 24,268 | \$ 48,537 |

12. PATENTS

| | 2011 | 2010 |
|--------------------------------|-------------|-------------|
| Patents | \$ 563,473 | \$ 464,114 |
| Less: accumulated amortization | (258,994) | (201,833) |
| | \$ 304,479 | \$ 262,281 |

13. INTELLECTUAL PROPERTY RIGHTS

| | 2011 | 2010 |
|--------------------------------|--------------|--------------|
| Balance, beginning of the year | \$ 2,520,567 | \$ 2,507,184 |
| Addition | 30,869 | 13,383 |
| Less: accumulated amortization | (142,678) | - |
| Balance, end of the year | \$ 2,408,758 | \$ 2,520,567 |

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13. INTELLECTUAL PROPERTY RIGHTS (Continued)

During fiscal 2011, the Company changed the estimated useful life of the intellectual property rights from indefinite to 15 years based on the current market demand and other economic factors. This revision is accounted for prospectively as a change in accounting estimates as per CICA Handbook Section 1506, "Accounting Changes". As a result, the intellectual property rights related to TPOD and MAT are amortized straight line over their estimated useful lives and the amount of \$142,678 was charged to net income of fiscal 2011. Net income of future years will be decreased by \$71,339 per year until the end of the useful life of the products. The intellectual property rights for CRIC™ and FASTINFO are not amortized since they are still under development and will be amortized upon commercial production.

14. 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 portion of the line of credit that is available to the Company is based on 90% of accounts receivable aged less than 90 days subtracted by salary and vacation payable at the end of each period. The line of credit is subject to financial covenants pertaining to three ratios:

Working capital ratio of minimum 1.25:1, calculated as the average of the last two quarters;

Debt service coverage of minimum 1.25:1, calculated on a rolling four quarter basis;

Debt to equity ratio of maximum 1.5:1, calculated on a quarterly basis.

As at September 30, 2011, the Company was not in compliance with the debt service coverage and the creditor has the right to demand repayment as per the agreement, but no formal notice has been received. As at September 30, 2011, \$326,427 have been drawn down from this credit facility (2010 - \$258,081).

15. LOAN PAYABLE

| | 2011 | 2010 |
|--|-------------------|-------------|
| Promissory note payable in Canadian dollars, interest at prime plus 8% per annum, monthly blended payments of \$26,724 until March 15, 2012, common share purchase warrants of 110,000 attached, (Note 18) | \$ 158,961 | \$ 485,309 |
| Less: current portion | (158,961) | (281,251) |
| | \$ - | \$ 204,058 |

The loan is secured by a general security agreement over all assets of the Company and subject to financial covenants pertaining to three ratios:

Working capital ratio of minimum 1.25:1 at any time;

Debt service coverage of minimum 1.25:1 at any time;

Debt to equity ratio of maximum 1.5:1 at any time.

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15. LOAN PAYABLE (Continued)

As at September 30, 2011, the Company was not in compliance with the working capital ratio and debt service coverage. The creditor has the right to demand repayment as per the agreement, but no formal notice has been received.

On January 5, 2011, the Company made a prepayment of \$42,013 without penalty as per the loan agreement to reduce the principal balance.

16. CONVERTIBLE DEBENTURES

| | 2011 | | 2010 | |
|--|------|-----------|------|-----------|
| Convertible debentures issued | \$ | 545,000 | \$ | 545,000 |
| Equity portion of convertible debentures | | (191,825) | | (191,825) |
| | | 353,175 | | 353,175 |
| Deferred financing costs (net of amortization) | | (61,543) | | (83,611) |
| Interest accretion | | 72,242 | | 36,890 |
| Debt portion of convertible debentures | \$ | 363,874 | \$ | 306,454 |

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. OTHER LONG-TERM LIABILITIES

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 of

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17. OTHER LONG-TERM LIABILITIES (Continued)

\$953,910, recorded in accrued liabilities, is the contingent payments subject to achievement of certain milestones.

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, US\$637,586 was reclassified as other long term liabilities. During fiscal 2011, there has been no change on these liabilities and the Canadian equivalent of \$668,318 (2010 - \$ 656,587) was reported as at September 30, 2011.

18. SHARE CAPITAL

a) Authorized

100,000,000 common shares without par value.

b) Issued and Outstanding

On December 30, 2010, the Company closed a non-brokered private placement and issued 3,000,000 common shares at \$0.20 per share for gross proceeds of \$600,000 to a single investor. There was no finder's fees payable in connection with the placement but \$22,385 of legal cost and filing fee was paid as share issuance cost for the placement. All securities issued in connection with the placement were subject to a statutory hold period of four months plus a day from the date of issuance in accordance with applicable securities legislation. The proceeds of the placement were used for general working capital and to pursue international sales opportunities.

c) Escrow Shares

In March 2011, 300,000 shares held in escrow were released in accordance with TSX Venture Exchange policies.

In September 2010, 300,000 shares held in escrow were released in accordance with TSX Venture Exchange policies.

In March 2010, 300,000 shares held in escrow were released in accordance with TSX Venture Exchange policies.

As at September 30, 2011, all the shares held in escrow have been released in accordance with TSX Venture Exchange policies (2010 – 300,000 shares were held in escrow).

d) Warrants

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

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Notes to Consolidated Financial Statements

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18. SHARE CAPITAL (Continued)**d) Warrants (Continued)**

| | 2011 | | 2010 | |
|--------------------------------|--------------------|---------------------------------|--------------------|---------------------------------|
| | Number of Warrants | Weighted Average Exercise Price | Number of Warrants | Weighted Average Exercise Price |
| Outstanding, beginning of year | 2,835,000 | \$ 0.23 | 2,835,000 | \$ 0.23 |
| Issued | - | - | - | - |
| Outstanding, end of year | 2,835,000 | \$ 0.23 | 2,835,000 | \$ 0.23 |

As at September 30, 2011, 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

The Company has 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. As at September 30, 2011, a total of 401,200 (2010 – 1,166,200) stock options have been granted out of the 1,500,158 (2010 – 1,200,158) pool under this plan, with the balance of 1,098,958 (2010 – 33,958) stock options available to grant.

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:

| | 2011 | | 2010 | |
|--------------------------------|-------------------|---------------------------------|-------------------|---------------------------------|
| | Number of Options | Weighted Average Exercise Price | Number of Options | Weighted Average Exercise Price |
| Outstanding, beginning of year | 1,166,200 | \$ 0.31 | 1,066,200 | \$ 0.35 |
| Granted | - | - | 230,000 | 0.20 |
| Expired | (280,000) | 0.45 | - | - |
| Cancelled | (485,000) | 0.27 | (130,000) | 0.43 |
| Outstanding, end of year | 401,200 | \$ 0.26 | 1,166,200 | \$ 0.31 |

As at September 30, 2011, the following stock options were outstanding:

PYNG MEDICAL CORP.

Notes to Consolidated Financial Statements

For the Years Ended September 30, 2011 and 2010

(Expressed in Canadian Dollars)

18. SHARE CAPITAL (Continued)**e) Stock Options (Continued)**

| Options Outstanding | | | Options Exercisable |
|---------------------|----------------|---------------|---------------------|
| Number of Options | Exercise Price | Expiring Date | Number of Options |
| 81,200 | \$ 0.23 | 10-May-13 | 81,200 |
| 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 | 50,000 |
| 150,000 | \$ 0.20 | 9-Mar-15 | 150,000 |
| 401,200 | | | 401,200 |

As at September 30, 2011, 401,200 (2010 – 879,133) stock options were vested and exercisable, and the fair value of \$24,076 (2010 - \$72,482) has been expensed as stock based compensation during the year.

On March 10, 2010, the Company granted 150,000 stock options exercisable for a period of five years until March 9, 2015 at a price of \$0.20 per share.

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.

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:

| | 2011 | 2010 |
|-------------------------|------|-------------|
| Dividend yield | Nil | Nil |
| Expected volatility | - | 82% - 83% |
| Risk-free interest rate | - | 3.72% |
| Expected life | - | 4 - 5 years |

19. INCOME TAXES

The Company and its subsidiary are subject to income taxes in Canada and U.S.A. on its taxable income as reported in its statutory accounts at a tax rate in accordance with the relevant income tax laws.

a) Income Tax Expenses

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

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Notes to Consolidated Financial Statements

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(Expressed in Canadian Dollars)

19. INCOME TAXES (Continued)

| | 2011 | 2010 |
|---|--------------------|-------------------|
| Statutory tax rate | 27.00% | 28.80% |
| Income tax (recovery) expense at statutory rate | \$ (58,000) | \$ 108,000 |
| Increase (reduction) in income taxes: | | |
| Permanent differences and other | 50,000 | 17,000 |
| Valuation allowance | | |
| Tax losses utilized | - | (26,000) |
| Effect of tax rate change | (13,000) | 10,000 |
| Total income tax (recovery) expense | \$ (21,000) | \$ 109,000 |

b) Future Income Taxes

Future income taxes result primarily from differences in the recognition of certain revenue and expense items for financial and income tax reporting purposes. The Company has temporary differences between the tax and accounting bases of assets. The temporary differences that give rise to future income tax assets (liabilities) at September 30, 2011 and 2010 are as follows:

| | 2011 | 2010 |
|--|---------------------|---------------------|
| Future income tax assets: | | |
| Non-capital loss carry forwards | \$ 470,000 | \$ 358,000 |
| Capital loss carry forward | 31,000 | - |
| Finance fee | 8,000 | 7,000 |
| Property and equipment | 26,000 | 7,000 |
| Patents | 43,000 | 32,000 |
| Valuation allowance | (51,000) | - |
| | 527,000 | 404,000 |
| Future income tax liabilities: | | |
| Intellectual property rights | (252,000) | (328,000) |
| Deferred product development costs | (715,000) | (537,000) |
| Net future income tax liabilities | \$ (440,000) | \$ (461,000) |

As at September 30, 2011, the Company has non-capital losses carried forward of approximately \$1,770,000 (2010 - \$1,004,000) in Canada and \$62,000 (2010 - \$44,000) in U.S.A., which expire over the years 2028 to 2031.

20. 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, 2011, consulting fees of \$157,561 (2010 - \$127,038) and directors fees of \$107,500 (2010 - \$101,949) were paid or accrued to the directors and officers of the Company.

As at September 30, 2011, \$1,572 (2010 - \$9,393) was owing to directors for consulting fees and expense reimbursements. The amount is included in accounts payable.

PYNG MEDICAL CORP.

Notes to Consolidated Financial Statements

For the Years Ended September 30, 2011 and 2010

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20. RELATED PARTY TRANSACTION (Continued)

b) Contractual commitments with directors

As at September 30, 2011 and 2010, the Company did not have contractual commitments with directors.

21. 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:

| | 2011 | | 2010 | |
|--------|------------|--------------|------------|--------------|
| | Percentage | Amount | Percentage | Amount |
| U.S.A. | 81% | \$ 4,891,203 | 92% | \$ 6,534,321 |
| Other | 19% | 1,159,218 | 8% | 554,516 |
| | 100% | \$ 6,050,421 | 100% | \$ 7,088,837 |

22. COMMITMENTS

a) Operating Lease

The Company has a one-year operating lease commitment on its Richmond production premises. The Company is required to pay base rent of \$4,577 per month. The lease will expire on September 30, 2012.

b) Product Development and Manufacturing

During fiscal 2011, the Company has entered into various contracts with a strategic partner, Donatelle Plastics Inc. ("Donatelle"), a medical device development and manufacturing company in Minnesota U.S.A., to execute the product FASTX re-launch project and is committed to pay Donatelle about US\$1.4 million for completion of the project. As at September 30, 2011, the amount of US\$807,219 has been incurred towards the contracts and the balance US\$592,781 is anticipated to be incurred in the first two quarters of fiscal 2012. As at September 30, 2011, US\$281,950 was included in accounts payable as owing to Donatelle.

In addition, the Company signed a manufacturing outsourcing agreement with Donatelle in May 2011. Pursuant to the agreement, upon market release, all FASTX products for commercial sale will be manufactured by and purchased exclusively from Donatelle during the life of the products. All products supplied by Donatelle will meet mutually agreed specification and will be charged at a mutually agreed unit price. If certain minimum volumes are not achieved, cancellation charges may apply to offset Donatelle's investment (capacity and resource commitments) in this FASTx program.