PYNG MEDICAL CORP.

MANAGEMENT’S DISCUSSION AND ANALYSIS

For the Three and Six Months Ended March 31, 2013 and 2012
Management’s Discussion and Analysis (“MD&A”) is intended to help the reader understand the significant factors that have affected the Company and its subsidiary's performance and such factors that may affect its future performance. The following discussion and analysis of the operations, results, and financial conditions of the Company should be read in conjunction with the audited financial statements for the year ended September 30, 2012 and the related notes therein. The effective date of this report is May 28, 2013. All financial information, unless otherwise indicated, is expressed in Canadian dollars. Additional regulatory filings for the Company are available on SEDAR and can be accessed at www.sedar.com or on the company’s website at www.pyng.com.

Management is responsible for establishing appropriate information systems, procedures and controls to ensure that all financial information disclosed externally, including this MD&A, and used internally by management, is complete and reliable. These procedures include the review and approval of the financial statements and associated information first by the Audit Committee and subsequently by the Board.

FORWARD-LOOKING STATEMENTS

This MD&A contains forward-looking statements that reflect current view of the Company with respect to future events and financial performance and are subject to certain risks, uncertainties and assumptions. When used in this document, the words “may”, “would”, “could”, “will”, “intend”, “plan”, “propose”, “anticipate”, “believe”, “forecast”, “estimate”, “expect” and similar expressions, as they relate to the Company or its management, are intended to identify forward-looking statements.

There are a number of risks and uncertainties that could cause the Company’s actual results, performance or achievements to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements, including, but not limited to, change in general economic and political conditions, failure to achieve anticipated revenues and income growth, failure to raise additional working capital to fund future operations, regulation and competitor change, failure to develop new product and anticipate changes in technology and product requirements, potential for product liability, inadequate protection of intellectual property rights, uncertainty in the future financial conditions, the impact of currency exchange rates and interest rates and failure to obtain FDA clearance to sell the new products.

Given these risks and uncertainties, potential investors and readers are urged to consider these factors carefully in evaluating these forward-looking statements and are cautioned not to place undue reliance on such forward-looking statements. The Company does not intend, and does not assume any obligation, to update any such factors or to publicly announce the result of any revisions to any of the forward-looking statements contained herein to reflect future results, events or developments.

BUSINESS DESCRIPTION

Pyng Medical Corp. (the “Company” or “Pyng”) is a public company incorporated under the British Columbia Business Corporation Act, that maintains an office at Unit 210, 13480 Crestwood Place, Richmond, BC V6V 2J9. The Company’s registered and records office is located at 2800 Park Place, 666 Burrard Street, Vancouver, B.C., V6C 2Z7. 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.

Pyng is a reporting issuer in British Columbia and Alberta. Its common shares are traded on the TSX Venture Exchange under the symbol PYT.
Pyng is a global medical device company that discovers, develops, manufactures and markets a suite of innovative trauma and resuscitation products that can save lives in seconds. Pyng’s expanded product portfolio includes a variety of innovative lifesaving tools. Each product in the portfolio meets the ease of clinician to use, safety, efficacy, and overall competitive value criteria essential for life saving. With growing markets in North America, Europe and Asia, Pyng offers user-preferred medical devices for use by hospital staff, emergency medical services and military forces worldwide.

PYNG PRODUCT PORTFOLIO

Pyng has researched, developed and commercialized a proprietary intraosseous infusion system, FAST1® Intraosseous Infusion System, which has been granted numerous patents in the U.S.A., Mexico, Canada and Europe. It provides quick vascular access to enable the rapid administration of drugs, medications, fluids, and blood to patients that require emergency life-saving treatment. It is a rapid, reliable and safe alternative to conventional IV infusion providing lifesaving vascular access for fluid and drug resuscitation in cardiac, shock and trauma victims.

The FASTx™ Sternal Intraosseous Device has been Company’s next generation lead clinical product which was re-engineered from FAST1. FASTx™ was designed to be easy-to-deploy, and require no additional tools or pre-use incisions to provide fluids, medication, and blood quickly and easily. Built-in anatomical land marking allowed placement even in challenging conditions, while automatic depth-control eliminated the guesswork around how deep to go providing for clear and confident vascular access. A new target foot provided for stability and aided in proper alignment. In 2010, the Company received regulatory clearance from Health Canada, CE Mark and US FDA to market FASTx. In November 2010, the Company initiated a voluntary recall of the FASTx™ Sternal Intraosseous Device due to early feedback that performance was inconsistent in several early training sessions. In 2012, the Company finalized two new product offerings (Responder and Combat), based on FASTx technology, which further improved on previous designs and addresses issues seen in the original 2010 launch. As of May 28, 2013, the Company has submitted the first of these products to the regulatory bodies both in USA and Europe for review and approval. The Company plans to launch these new IO Infusion devices in 2013, if and when approved by regulatory bodies.

The T-POD® Pelvic Stabilizer device provides immediate treatment of simple and complex pelvic fractures by binding the pelvis to reduce pain, bleeding, or haemorrhage, morbidity, and mortality risks. In 2012, Pyng formed a relationship with a new technology partner for Trauma products that will begin to yield new products in this category for 2013. The first new product is called “TPOD Combat”, a new pelvic stabilization device focused on the needs of the military that can be packaged in a smaller space and introduces new materials for improved product performance.

The MAT® Tourniquet is used “one handed” by the wounded patient or initial responder to quickly and effectively stop life threatening arterial bleeding of any extremity to reduce the risk of limb loss and mortality.

The E-MAT™ is a tourniquet marketed for the Emergency Medical Services (EMS) Market. It features a bright, EMS orange color, setting it apart from its surroundings and making it noticeable at an accident scene. With its new color, the E-MAT™ contains all the same award-winning features of the original MAT®. It is also lightweight and compact, making it an easy fit into any medical bag. By providing fast and easy application, even to trapped limbs, complete blood flow occlusion is achieved in 30 seconds.
The CRIC™ (Complete Rapid Illuminated Cricothyrotomy) is the latest innovative, life-saving medical product to allow for one-handed surgical airway intervention. CRIC™ is indicated for use in obtaining a surgical airway for patients where intubation is not an option and the product provides a rapid Cricothyroidotomy solution (including illumination) in a single compact device. Testing performed to date has indicated that CRIC™ delivers fast and effective airway access via this singular device as opposed to current methods which require several kit components. The CRIC™ has received the CE mark in Europe via the European Medical Device Directive 93/42/EEC, and has also been cleared by Health Canada and the Australian Therapeutic Goods Administration. As a result, CRIC™ is currently for sale in Europe, Canada, Australia and other countries which accept these major regulatory agency approvals.

STRATEGIC PRIORITIES FOR FISCAL 2013:
- Control Costs and maintain necessary Cash-Flow to allow strategic priorities to be executed.
- Launch New Products, starting with a new pelvic stabilization product called TPODCombat and expected to be followed by two new IO Infusion products and other new Trauma products (similar to TPOD and MAT).
- Enhanced Marketing, in support of the new product launches.
- New Sales Strategies, particularly in the USA, designed to improve distribution channel access to Pyng products, as well as the efficiency of the channel.
- Leverage Pyng’s two new technology partners to design and develop more new products, based on market demand and company capability.

RESULTS OF OPERATIONS

Revenues

The Company’s recorded total sales $992,342 for the three months ended March 31, 2013, up $181,951 or 22% from $810,391 for the second quarter of last year. The increase in sales was primarily attributed to a slight sales rebound from the U.S.A. military market as well as some global sales gains with the Trauma Products (MAT and TPOD). Sales for the six months ended March 31, 2013 were $2,035,650, a decrease of $101,931 or 5% from $2,137,581 for the comparative period of last year. Lower sales in the first quarter of FY13, mainly due to a decrease in USA Military sales, were the primary reason behind the small overall sales reduction for the first two quarters.

Gross Margin

Gross margin for the three months ended March 31, 2013 amounted to $412,432, which represents a 16% decrease from $492,751 reported a year ago. Gross margin as a percentage of revenues decreased from 61% for the three months ended March 31, 2012 to 42% for the second quarter of this year. Gross margin for the six months ended March 31, 2013 was $936,373, down $374,870 or 29% from $1,311,242 reported a year ago. It should be noted as part of the Gross Margin discussion that COGS increased from $317,640 for the three months ended March 31, 2012 to $579,910 for the three months ended March 31, 2013. This increase in COGS, and the corresponding drop in gross margin, is primarily explained via one-time costs incurred to transfer FAST1 manufacturing from Canada to a new technology partner in the U.S.A. The decrease in gross margin can also be partially attributed to severance expenses paid to production staff when the manufacturing facility was closed in Canada, an increase in landed costs of raw materials to alleviate backorders and material shortages, and different labour costs than those that existed in Canada. The company is focused on cost-reduction efforts related to labour and material handling, so
that it may maximize the efficiency of its relationship with technology partners going forward, and also to
achieve efficiency of scale via the launch of new products.

Expenses

Operating expenses for the three months ended March 31, 2013 totalled $796,015, up 17% compared to
$678,802 for the second quarter of last year. Operating expenses for the six months ended March 31, 2013
$1,579,999 were also 14% higher than the amount of $1,391,652 reported for the comparative period one
year ago. The increase in operating expenses was primarily due to slightly higher general and
administrative expenses as well as increased product development expenses this year.

Research and product development expenses for the three and six months ended March 31, 2013
increased to $100,393 and $163,006 respectively, compared to $3,371 and $49,958 for the comparative
periods of last year. This increase was mainly attributed to the higher consulting fee and product
development expenses related to training products for the new IO devices that are planned to be launched
in 2013, which can not be capitalized based on IFRS.

General and administrative expenses for the three months ended March 31, 2013 increased 12% to
$368,354 compared to $330,427 reported a year ago. This increase was primarily attributable to the office
relocation expenses in January 2013 (moved to smaller office space to reduce costs). Also, several minor
factors contributed to the increase, including annual salary and benefit increase, higher consulting fees
and director fees, partially offset by lower facility expenses after manufacturing outsourcing. As a result,
a total amount of $695,391 was reported for the six months ended March 31, 2013, up 3% from $673,583
for the same period of last year.

Sales and marketing expenses for the second quarter ended March 31, 2013 amounted to $151,654, down
$36,048 or 19% compared to $187,702 reported a year ago, primarily due to lower product liability
insurance costs and marketing expenses. This expense reduction was partially offset by severance costs
incurred in the first quarter of 2013. On a year-to-date basis, a total amount of $383,246 was reported for
the six months ended March 31, 2013, which remained flat with the amount reported for the same period
last year.

Amortization of property and equipment for the quarter ended March 31, 2013 decreased to $5,275 from
$6,988 due to reduced carrying value to be amortized this year compared to the carrying value of last
year. For the same reason, the amortization for the first two quarters decreased to $10,549 this year as
compared to $14,205 for the first two quarters of last year.

Amortization of intangible assets for the three and six months ended March 31, 2013 decreased to
$107,462 and $214,223 respectively, compared to $114,240 and $228,176 for the same period last year,
which included amortization for deferred product development costs, patent and intellectual property
rights. The decrease was due to lower amortization costs on Pyng patents so far this year.

Interest expenses for the three month ended March 31, 2013 were $32,220, slightly lower than $32,585
reported a year ago. For the six months period, the total interest increased to $67,749 from $58,137 due to
increased principal from the MDR loan.

Other finance costs included the amortization of deferred financing costs and accretion of interest on
convertible debt which was issued in fiscal 2009. The amount of $15,927 and $31,854 were recorded for
the three and six months ended March 31, 2013, which was slightly higher than $15,054 and $30,107
reported a year ago, due to the higher interest accretion this year.
Foreign exchange gain or losses are attributable to the effect of the changes in the value of U.S. dollar, relative to the Canadian dollar on the U.S. dollar denominated net monetary position. The foreign exchange loss of $11,559 and $11,200 were recorded for the first three and six months ended March 31, 2013, which primarily resulted from the strengthening U.S. dollar on the U.S dollar denominated net liability position. Compared to the U.S dollar, the Canadian dollar weakened from 0.9832 at September 30, 2012 to 0.9949 at December 31, 2012 and 1.0160 at March 31, 2013. For the same period of last year, the Canadian dollar strengthened from 1.0482 at September 30, 2011 to 1.0170 at December 31, 2011 and 0.9975 at March 31, 2012.

Net Loss and Comprehensive Loss

Net loss for the second quarter ended March 31, 2013 was $383,583, as compared to a net loss of $186,051 for the second quarter of last year. On a year-to-date basis, the company incurred a net loss of $643,626 compared to net loss of $80,410 for the same period last year. Several main factors contributed to this loss, including the lower gross margin mainly caused by the temporary higher landed cost (primarily attributable to recovery from raw material shortages) and manufacturing transfer costs, higher operating expenses and unfavourable fluctuation of foreign exchange.

SUMMARY OF QUARTERLY RESULTS

The following table sets out selected quarterly information for the last eight quarters.

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</tr>
</thead>
<tbody>
<tr>
<td>Total sales</td>
<td>796,015</td>
<td>1,043,308</td>
<td>957,032</td>
<td>1,445,785</td>
<td>810,391</td>
<td>1,327,190</td>
<td>995,611</td>
<td>1,723,803</td>
</tr>
<tr>
<td>Gross margin</td>
<td>412,432</td>
<td>523,942</td>
<td>521,142</td>
<td>947,985</td>
<td>492,751</td>
<td>818,491</td>
<td>525,533</td>
<td>1,121,336</td>
</tr>
<tr>
<td>Expenses</td>
<td>383,583</td>
<td>260,043</td>
<td>1,042,510</td>
<td>73,468</td>
<td>105,641</td>
<td>210,555</td>
<td>908,449</td>
<td>918,903</td>
</tr>
</tbody>
</table>

LIQUIDITY AND SOLVENCY

The Company’s principal sources of liquidity are cash provided by operations, borrowing under a loan, and issuance of convertible debentures and equity. The Company’s short-term cash requirements are primarily to fund working capital and invest in product development, particularly the FASTx re-launch project and intangible assets for growth initiatives. Cash has also been used to finance an acquisition of assets and other long-term strategic business initiatives.

To manage the company’s liquidity risk, customer credit evaluations are based on information obtained from trade references, bank reports, and periodic review of customers’ payment patterns to ensure irregularities are addressed promptly. The Company also acquires accounts receivable insurance coverage from Export Development Canada to mitigate collection risks.

Cash Position

As at March 31, 2013, the Company had cash of $200,302, (September 30, 2012 – $283,597), representing a decrease of $83,295 compared with the balance as at the year ended September 30, 2012.

Cash used by operating activities for the three months ended March 31, 2013 was $16,935, compared with the cash provided by operations of $213,491 during the second quarter of last year. Increased
operating expenses mainly contributed to the cash usage. As a result, for the six months ended March 31, 2013, the Company used cash of $7,652 from operating activities, compared with the cash provided of $477,866 for the same period of last year.

There have been no financing activities for the three and six months ended March 31, 2013. In contrast, cash outflow of $9,568 and $79,289 were incurred for the same period of last year. During the first two quarters of last year, the Company obtained cash proceeds of $220,616 from a short-term loan and paid back a long-term loan and operating line of $160,127 and $139,778 respectively.

Cash used by the investing activities, including the expenditures on property and equipment and intangible assets, which included product development, patents and intellectual property rights, in the ordinary course of business for the three and six months ended March 31, 2013, decreased to $12,927 and $100,570 respectively, compared to $277,418 and $546,449 for the same period of last year. All cash outflows were to pay patent costs and product development costs on the FASTx re-launch project.

Working Capital

As of March 31, 2013, the Company had a working capital deficiency of $678,790 (September 30, 2012 – $196,463), which worsened by $482,327, compared with the amount as at September 30, 2012. The decrease in working capital was primarily attributable to increased accounts payable and loans payable resulting from costs associated with the relaunch of FASTx, higher production costs (primarily attributed to the acquisition of raw materials to recover from shortages), and production transfer costs incurred during this year.

The following is an analysis of the contractual maturities of the Company’s financial liabilities as at March 31, 2013:

<table>
<thead>
<tr>
<th>Due by period</th>
<th>Total</th>
<th>&lt;1 year</th>
<th>1-2 year</th>
<th>2-3 year</th>
<th>3-4 year</th>
<th>4-5 year</th>
<th>&gt;5 year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade payable and accrued liabilities</td>
<td>$1,388,396</td>
<td>$1,388,396</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Loan payable</td>
<td>$581,959</td>
<td>$581,959</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Convertible debenture</td>
<td>$455,947</td>
<td>$455,947</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Operating lease</td>
<td>$33,734</td>
<td>$23,964</td>
<td>$9,770</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Product development</td>
<td>$207,032</td>
<td>$207,032</td>
<td>$465,717</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$2,667,068</strong></td>
<td><strong>$2,201,351</strong></td>
<td><strong>$465,717</strong></td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

The Company expects to decrease its working capital requirements as most of the FASTx re-launch project has been completed. Moreover, cash flow needs for regular operations are expected to decrease with the completion of manufacturing outsourcing and further operating expense cuts management has taken.

This MD&A and the audited consolidated financial statements have been prepared in accordance with International Financial Reporting Standards 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.
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 expired on September 30, 2012 has been renewed to January 31, 2013. The Company has entered into two lease agreements with different landlords for a smaller premise. One is a sublease agreement effective January 15, 2013 and will expire on July 31, 2013 with the monthly lease payment $2,083 and another one is an one year lease agreement from August 1, 2013 to July 31, 2014 with monthly lease payment of $1,954.

b) Product Development and Manufacturing

In May 2011, the Company entered into a strategic relationship with Donatelle Plastics Inc. (“Donatelle”), a medical device development and manufacturing company in Minnesota USA. The company entered into this relationship to leverage Donatelle’s well-known capabilities in product development and manufacturing as part of efforts in bringing FASTx back to market. Current estimates are that the Company will incur costs with Donatelle in the amount of US$2.01 million for the entire completion (product development) of the FASTx re-launch project. As of March 31, 2013, total cost of US$1,809,291 had been incurred and the balance of US$203,772 is anticipated to incurred in the third quarter of fiscal 2013.

As part of the strategic relationship entered into with Donatelle in May 2011, in addition to product development, the Company agreed to manufacture FASTx with Donatelle upon market release. All FASTx products for commercial sale will be manufactured by and purchased exclusively from Donatelle during the life of FASTx. All product supplied by Donatelle will meet mutually agreed specifications and will be charged at a mutually agreed unit price. These efforts are also in line with management’s overall strategy of reducing operating costs in fiscal 2012 and heading into fiscal 2013. If certain minimum volumes are not achieved or the product can not obtain FDA approval, cancellation charges could apply to offset Donatelle’s investment (capacity and resource commitments) in the FASTx program.

During fiscal 2012, the Company also signed a letter of commitment (“LOC”) with Donatelle to outsource the FAST1 manufacturing process. Based on the LOC, Donatelle will provide assembly, packaging and sterilization of FAST1 at the specified annual production volumes. The product supplied by Donatelle will meet Pyng’s documented design specifications and will be charged at a mutually agreed unit price. If the annual quantities are not achieved, the cancellation charge may apply. In late 2012, the Company finalized a manufacturing transfer of the FAST1 product line to Donatelle. FAST1 is now being manufactured at Donatelle.

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) Consulting fees

During the quarter ended March 31, 2013, consulting fees of $17,169 (three months ended March 31, 2012 - $9,604) were paid or accrued to a director for medical consulting services provided to the
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(Expressed in Canadian Dollars)

Company. As at March 31, 2013, $13,428 (September 30, 2012 - $430) were owing to him for the consulting services rendered and travel expenses in March 31, 2013. The amount is included in trade payable.

b) Compensation of key management personnel

Key management personnel are persons responsible for planning, directing and controlling the activities of the Company, which includes directors and other members of key management personnel. The compensation of key management for the three months ended March 31, 2013 and 2012 were as follows:

<table>
<thead>
<tr>
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<tbody>
<tr>
<td>Salaries and benefits</td>
<td>$51,934</td>
<td>$42,552</td>
</tr>
<tr>
<td>Consulting fees</td>
<td>46,869</td>
<td>36,604</td>
</tr>
<tr>
<td>Director fees</td>
<td>34,750</td>
<td>23,000</td>
</tr>
<tr>
<td>Share-based payments</td>
<td>5,571</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>$139,124</td>
<td>$102,156</td>
</tr>
</tbody>
</table>

As at March 31, 2013, director fees of $122,250 (September 30, 2012 - $37,750) is outstanding and included in accrued liabilities.

c) Short-term loan

On January 8, 2013, the Company signed a new promissory note with its largest shareholder, Excelera Corp. ("Excelera"), to roll over the principal balance of all the short term loans secured in fiscal 2012 in the total amount of $566,757 (US$557,832) and the interest accrued to January 7, 2013 amounting to $15,201 (US$14,962). The loan carried interest at 11% per annum, was not secured, and matured on March 9, 2013. The maturity date was extended to April 9, 2013. As at March 31, 2013, the total amount of $14,382 (US$14,155) interest was outstanding and reported under accrued liabilities on the statement of financial position.

As at March 31, 2013, Excelera beneficially owns or controls 17.71% of the outstanding common shares of Pyng. These shares were transferred to Excelera from MDR Specialty Distribution Corp. ("MDR") as a result of a reorganization of MDR. Herb Toms, the Board of Director of Pyng, beneficially owns or controls 80% of the common shares of Excelera and MDR.

SUBSEQUENT EVENTS

a) On April 10, 2013, the Company signed a new promissory note with its largest shareholder, Excelera, to roll over the principal balance of the short term loans renewed in January 2013 in the total amount of $581,959 (US$572,794) and the interest accrued to April 09, 2013 amounting to $15,569 (US$15,324). The loan was renewed for three months with interest at 18% per annum. The loan matures on July 8, 2013.

b) On April 29, 2013, the Company announced that it has reached agreement with MDR to convert an amount of CDN$598,057.23 (being the equivalent of US$588,118.04, as calculated at the Bank of Canada closing exchange rate on April 26, 2013 of 1.0169 CDN$/US$) owed by the Company to
MDR into common shares at a price of $0.09 per common share, subject to disinterested shareholder approval and TSX Venture Exchange (“TSX-V”) acceptance (the “Shares for Debt Transaction”).

MDR and Excelera Corporation (“Excelera”), the Company’s largest shareholder holding approximately 17.71% of the Company’s outstanding common shares, are wholly-owned subsidiaries of Venuity Corporation. Herbert A. Toms III, a director of the Company, is the co-founder and Chief Executive Officer of Venuity Corporation, and owns 80% of the shares of Venuity Corporation.

Pursuant to the Shares for Debt Transaction, a total of 6,645,080 common shares will be issued to MDR in settlement of the debt owing. Following the completion of the Shares for Debt Transaction and the Private Placement (as defined below), MDR will own 6,645,080 common shares, being approximately 25.20% of the 26,365,273 common shares of the Company that would then be outstanding.

Concurrently with the completion of the Shares for Debt Transaction, Excelera will subscribe for 2,777,777 units of the Company (the “Units”) by way of a private placement at a price of $0.09 per Unit for gross proceeds to the Company of approximately CDN$250,000 (the “Private Placement”). Each Unit will consist of one common share of the Company and one-half of one common share purchase warrant (each whole warrant, a “Warrant”). Each Warrant will entitle Excelera to acquire one additional common share of the Company at a price of $0.1125 per share for a period of four years from the date of issue.

Following the completion of the Shares for Debt Transaction and the Private Placement, Excelera will own 5,777,777 common shares, being approximately 21.91% of the 26,365,273 common shares of the Company that would then be outstanding. The net proceeds from the Private Placement will be used for general working capital. Following the completion of the Shares for Debt Transaction and the Private Placement, MDR and Excelera will own a combined 47.11% of the Company’s common shares then outstanding. The completion of the Private Placement is subject to disinterested shareholder approval and TSX-V final acceptance under common ownership.

OFF BALANCE SHEET ARRANGEMENTS

The Company has not entered into any off balance sheet arrangements.

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions which affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses for the periods reported. These estimates are reviewed periodically and, as adjustments become necessary, they are reported in operations in the period in which they become known.

We have identified the following as critical accounting estimates, which are defined as those that are reflective of significant judgments and uncertainties. These estimates are the most pervasive and important to the presentation of our financial condition and results of operations and could potentially result in materially different results under different assumptions and conditions.
a) 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.

b) Research and Development Costs

All product development costs that meet the specific criteria of capitalization under IFRS have been capitalized. In prior years, the accumulated capitalized costs were being amortized on a per unit basis based on the sales volume projection for the estimated remaining 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 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.

c) 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.

d) Intellectual Property Rights

All the costs incurred to acquire patents, trademarks, and other intellectual and industrial property rights related to TPOD®, MAT®, FASTINFO and CRIC™ 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.

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:

<table>
<thead>
<tr>
<th>Assets</th>
<th>Annual Rate</th>
<th>Basis</th>
</tr>
</thead>
<tbody>
<tr>
<td>Furniture and office equipment</td>
<td>20%</td>
<td>Declining balance</td>
</tr>
<tr>
<td>Medical equipment</td>
<td>20%</td>
<td>Declining balance</td>
</tr>
<tr>
<td>Computer equipment</td>
<td>30%</td>
<td>Declining balance</td>
</tr>
<tr>
<td>Leasehold improvements</td>
<td>30%</td>
<td>Straight-line</td>
</tr>
<tr>
<td>Software</td>
<td>100%</td>
<td>Straight-line</td>
</tr>
</tbody>
</table>

f) 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. The recoverable
amount is the higher of the fair value less cost to sell and the value in use. In assessing value in use, the estimated future cash flow are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the assets. An impairment loss is recognized in net loss if carrying amount of an asset or its cash-generating unit exceed its estimated recoverable amount.

g) Stock-based Payments

The fair value is measured at grant date, and each tranche is recognized using the graded vesting method over the period during which the options vest. The fair value of the options granted is measured using the Black-Scholes option pricing model taking into account the terms and conditions upon which the options were granted. At each financial position reporting date, the amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest. This estimate requires determining the most appropriate inputs to the valuation model including the estimated dividend yield, expected volatility, the risk-free interest rate and the expected lives of the share purchase options.

h) Income taxes

Deferred tax assets and liabilities are recognized where the carrying amount of an asset or liability differs from its tax base, except for taxable temporary differences arising on the initial recognition of goodwill and temporary differences arising on the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting nor taxable profit or loss.

Recognition of deferred tax assets for unused tax losses, tax credits and deductible temporary differences is restricted to those instances where it is probable that future taxable profit will be available against which the deferred tax asset can be utilized. At the end of each reporting period, the Company reassesses unrecognized deferred tax assets. The Company recognizes a previously unrecognized deferred tax asset to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

FUTURE ACCOUNTING PRONOUNCEMENTS

Certain pronouncements were issued by the International Accounting Standards Board (“IASB”) or the IFRS Interpretations Committee that are mandatory for accounting years beginning after January 1, 2011 or later years. The Company has not adopted the following standards and is in the process of evaluating the impact that these standards will have on the financial statements:

a) IFRS 9 Financial Instruments

IFRS 9 Financial Instrument is part of the IASB’s wider project of replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value. The basis of classification depends on the entity’s business model and the contractual cash flow characteristic of the financial assets. The standard is effective for annual periods beginning on or after January 1, 2015.
b) IFRS 10 Consolidated Financial Statements

IFRS 10 builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. This standard is effective for annual periods beginning on or after January 1, 2013.

c) IFRS 11 Joint Arrangements

IFRS 11 describes the accounting for arrangement in which there is joint control by focusing on the rights and obligations of the arrangement rather than its legal form. Proportionate consolidation is not permitted for joint ventures and it requires a single method to account for interest in jointly control entities. The standard is effective for annual periods beginning on or after January 1, 2013.

d) IFRS 12 Disclosure of Interest in Other Entities

IFRS 12 includes the disclosure requirements for all forms of interests in other entities, including joint arrangement, associates, special purpose vehicles and other off balance sheet vehicles. The standard is effective for annual periods beginning on January 1, 2013.

e) IFRS 13 Fair Value Measurement

IFRS 13 aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRS. The standard is effective for annual periods beginning on or after January 1, 2013.

FINANCIAL INSTRUMENTS AND RISKS

The Company’s financial instruments recognized on the balance sheet consist of cash and cash equivalents, accounts receivable, other receivable, accounts payable and accrued liabilities, loan payable and convertible debentures.

In accordance with IFRS 7, “Financial Instruments – Disclosures”, the Company has classified fair value measurement using three-level hierarchies. Pursuant to IFRS 7, 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 recorded values of all of the other financial instruments approximate their current fair values because of their nature and respective maturity dates or durations.

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:

Credit Risk

The Company is exposed to credit risk from accounts receivable. The Company performs certain credit evaluation procedures and does not require collateral for financial instruments subject to credit risk. The Company believes that credit risk is limited because the Company assesses the financial strength of its
customers, and based upon factors surrounding the credit risk of its customers, establishes an allowance for uncollectible accounts and, as a consequence, believes that its account receivable credit risk beyond such allowances is limited. The maximum exposure to credit risk is the net carrying value of accounts receivable.

Credit risk also arises from cash 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 65% (three months ended March 31, 2012 - 58%) of revenues for the three months ended March 31, 2013. 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.

Foreign Exchange Risk

The Company uses the Canadian dollar as its reporting currency for these consolidated financial statements. The Company’s revenues are dominated 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 $8,955 (three months ended March 31, 2012 – $14,220). If the Canadian dollar depreciated one percent against US dollar, there would be an equal and opposite impact on the net income.

During fiscal 2012, the Company entered into foreign currency forward contracts to protect itself against foreign exchange rate fluctuations. The forward foreign exchange contracts primarily require the Company to sell U.S. dollars for Canadian dollars at contractual rates. The Company’s objective is to manage and control 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.

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 on its accounts receivable, and convertible debenture to satisfy its liabilities as they become due. To manage the Company’s liquidity risk, customer credit evaluations are conducted based on trade references, bank reports, and periodic review of customers’ payment patterns to ensure irregularities are addressed promptly. As at March 31, 2013, the Company had cash of $200,302 (September 30, 2012 - $283,597) and working capital deficiency of $678,790 (September 30, 2012 – $196,463). On January 8, 2013, the Company renewed the short-term loan in the US$557,832 along with the interest accrued to date of US$14,962 until April 9, 2013. The significant decline in working capital was caused by the decrease in sales, additional FAST1 production transferring cost, higher product costs and FASTx re-launch costs. The Company is actively pursuing new financing to continue the FASTx re-launch project and for general working capital purposes. There are no certain that such new financing can be obtained.
Interest Rate Risk

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 a net income decrease or increase by approximately $1,344 (three months ended March 31, 2012- $1,758).

INTERNAL CONTROL OVER FINANCIAL REPORTING

The Company’s management, with the participation of its CEO and CFO, are responsible for establishing and maintaining adequate internal control over financial reporting. Under the supervision of CEO and CFO, the Company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles (“GAAP”). The Company’s internal control over financial reporting includes policies and procedures that:

1. Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;

2. Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP and that the Company’s receipts and expenditures are made in accordance with authorization of management or the Company’s directors as appropriate;

3. Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company’s assets that could have a material effect on the annual or interim financial statements.

OUTSTANDING SHARE DATA

Share Capital

The Company has 100,000,000 authorized common shares without par value. As at May 28, 2013, there are 16,942,416 common shares issued and outstanding.

<table>
<thead>
<tr>
<th></th>
<th>Number of Shares</th>
<th>Amount</th>
<th>Contributed Surplus</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance, September 30, 2011</td>
<td>15,001,583</td>
<td>8,422,339</td>
<td>$651,981</td>
</tr>
<tr>
<td>Common shares issued</td>
<td>1,940,833</td>
<td>174,675</td>
<td></td>
</tr>
<tr>
<td>Share issue cost</td>
<td></td>
<td>(14,659)</td>
<td></td>
</tr>
<tr>
<td>Fair value of options issued</td>
<td></td>
<td></td>
<td>3,172</td>
</tr>
<tr>
<td>Balance, September 30, 2012</td>
<td>16,942,416</td>
<td>8,582,355</td>
<td>$655,153</td>
</tr>
<tr>
<td>Fair value of options issued</td>
<td></td>
<td></td>
<td>$12,638</td>
</tr>
<tr>
<td>Balance, March 31, 2013</td>
<td>16,942,416</td>
<td>8,582,355</td>
<td>667,791</td>
</tr>
<tr>
<td>Balance, May 28, 2013</td>
<td>16,942,416</td>
<td>8,582,355</td>
<td>667,791</td>
</tr>
</tbody>
</table>

On July 19, 2012, the Company closed a non-brokered private placement financing for aggregate gross proceeds of approximately $175,000. Upon closing the financing, the Company issued a total of 1,940,833 units, each unit made up of one common share of the Company and three-quarters (3/4) of one
common share purchase warrant (each whole warrant, a “Warrant”) at a price of $0.09 per unit. Each Warrant will entitle the holder to acquire one additional common share of the Company at a price of $0.11 per share for a period of four years from the date after the closing.

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. 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.

On August 22, 2012, the Company granted a total of 530,000 options to purchase common shares of the Company to certain directors, officers and employees in accordance with the Company’s stock option plan. The options will expire four years from the date of grant and have an exercise price of $0.10 per common share. One-third of the options granted will vest every six months for a period of 18 months.

On December 3, 2012, the board of Directors passed a resolution that the amount of the stock options to one director on August 22, 2013 is incorrect and as a result, 30,000 stock options previously granted before was cancelled. In addition, 100,000 stock options previously granted before were cancelled due to one staff departure.

As at May 28, 2013, a total of 801,200 (September 30, 2012 – 931,200) stock options have been granted out of the 1,694,242 (September 30, 2012 – 1,694,242) pool under this plan, with the balance of 893,042 (September 30, 2012 – 763,042) stock options available to grant.

As at May 28, 2013, the following stock options were outstanding:

<table>
<thead>
<tr>
<th>Options Outstanding</th>
<th>Exercise Price</th>
<th>Expiring Date</th>
<th>Number of Options</th>
</tr>
</thead>
<tbody>
<tr>
<td>81,200</td>
<td>$0.23</td>
<td>10-May-13</td>
<td>81,200</td>
</tr>
<tr>
<td>60,000</td>
<td>$0.56</td>
<td>12-Jun-13</td>
<td>60,000</td>
</tr>
<tr>
<td>60,000</td>
<td>$0.41</td>
<td>8-Sep-13</td>
<td>60,000</td>
</tr>
<tr>
<td>150,000</td>
<td>$0.20</td>
<td>9-Mar-15</td>
<td>150,000</td>
</tr>
<tr>
<td>450,000</td>
<td>$0.10</td>
<td>22-Aug-16</td>
<td>150,000</td>
</tr>
<tr>
<td><strong>801,200</strong></td>
<td></td>
<td></td>
<td><strong>501,200</strong></td>
</tr>
</tbody>
</table>

**Warrants**

As at May 28, 2013, the following warrants were outstanding:

<table>
<thead>
<tr>
<th>Number of Warrants</th>
<th>Exercise Price</th>
<th>Expiring Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>110,000</td>
<td>$0.55</td>
<td>6-Jun-13</td>
</tr>
<tr>
<td>2,725,000</td>
<td>$0.22</td>
<td>10-Aug-14</td>
</tr>
<tr>
<td>1,455,625</td>
<td>$0.11</td>
<td>19-Jul-16</td>
</tr>
<tr>
<td><strong>4,290,625</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
ECONOMIC DEPENDANCE

The Company presently derives a substantial amount of its revenue from one distributor which contributed approximately 65% (three months ended March 31, 2012 - 58%) of revenue for the three months ended March 31, 2013. 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 51% (September 30, 2012 - 22%) of the accounts receivable balance as at March 31, 2013.

RISKS AND UNCERTAINTIES

For the Company’s risk factors, see the risks identified in the forward-looking information section above, and refer to the risk factors section of the Company’s press releases, all filed with the Canadian securities regulators, which is available on SEDAR at www.sedar.com