

# PYNG MEDICAL



Saving Lives in Seconds™

Report for the Years Ended September 30, 2010 and 2009

#7-13511 Crestwood Place, Richmond BC V6V 2E9 Canada  
Head Office: 604-303-7964 Fax: 604-303-7987

Investor Relations: 1-800-349-7964  
info@pyng.com

[www.pyng.com](http://www.pyng.com)

**PYNG MEDICAL CORP.**

**CONSOLIDATED FINANCIAL STATEMENTS**

**For the Years Ended September 30, 2010 and 2009**

## 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

December 14, 2010



## AUDITORS' REPORT

To the Shareholders of  
Pyng Medical Corp.

We have audited the consolidated balance sheets of Pyng Medical Corp. as at September 30, 2010 and 2009, and the consolidated statements of operations, comprehensive income and deficit, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at September 30, 2010 and 2009, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Vancouver, Canada

December 14, 2010

*"Morgan & Company"*

Chartered Accountants

**PYNG MEDICAL CORP.****Consolidated Balance Sheets***As at September 30, 2010 and 2009**(Expressed in Canadian Dollars)*

<b>ASSETS</b>	<b>2010</b>		<b>2009</b>	
Current				
Cash	\$	282,993	\$	152,531
Accounts receivable		1,211,408		893,404
Other receivable		69,435		61,958
Inventories (Note 7)		441,063		469,313
Prepaid expenses		68,325		80,153
		<u>2,073,224</u>		<u>1,657,359</u>
Deferred product development costs (Note 8)		3,023,044		2,949,796
Property and equipment (Note 10)		151,734		209,197
Website development cost (Note 11)		48,537		-
Patents (Note 12)		262,281		237,828
Intellectual property rights (Note 13)		2,520,567		2,507,184
	\$	<u><b>8,079,387</b></u>	\$	<u><b>7,561,364</b></u>
<b>LIABILITIES</b>				
Current				
Bank line of credit (Note 14)	\$	258,081	\$	-
Accounts payable		422,626		401,866
Accrued liabilities		350,011		346,072
Loan payable (Note 15)		281,251		254,815
		<u>1,311,969</u>		<u>1,002,753</u>
Loan payable (Note 15)		204,058		487,191
Convertible debentures (Note 16)		306,454		252,378
Other long-term liabilities (Note 13)		656,587		683,620
Future income tax liabilities (Note 18)		461,000		352,000
		<u>2,940,068</u>		<u>2,777,942</u>
<b>SHAREHOLDERS' EQUITY</b>				
Equity portion of convertible debentures		191,825		191,825
Share capital (Note 17)		7,844,724		7,844,724
Contributed surplus (Note 17)		624,963		552,481
Deficit		(3,522,193)		(3,805,608)
		<u>5,139,319</u>		<u>4,783,422</u>
	\$	<u><b>8,079,387</b></u>	\$	<u><b>7,561,364</b></u>

Nature and continuance of operations (Note 1)

Commitments (Note 21)

Approved on behalf of the board

"L.J. (Bud) Evans"  
Director"Robert Di Silvio"  
Director

See accompanying notes to the consolidated financial statements

PYNG MEDICAL CORP.

**Consolidated Statements of Operations, Comprehensive Income and Deficit**

*For the Years Ended September 30, 2010 and 2009  
(Expressed in Canadian Dollars, except number of shares)*

	2010	2009
<b>Sales</b>	<b>\$ 7,088,837</b>	<b>\$ 6,026,177</b>
<b>Cost of goods sold</b>	<b>2,254,298</b>	<b>1,685,547</b>
<b>Gross margin</b>	<b>4,834,539</b>	<b>4,340,630</b>
<b>Expenses</b>		
Advertising and promotion	31,790	88,788
Amortization of deferred product development costs	336,797	192,165
Amortization on website development cost	9,707	-
Amortization - other	132,920	159,642
Consulting fees	341,038	432,537
Foreign exchange loss (gain)	45,838	(153,510)
Interest and bank charges	31,476	32,441
Interest on convertible debenture	98,764	14,104
Interest on long-term debt	62,069	92,781
Licenses and insurance	154,294	165,115
Meals and entertainment	44,668	53,135
Office and telephone	122,791	185,092
Quality assurance regulatory requirements	35,348	35,843
Professional fees	374,281	535,855
Rent and utilities	113,911	96,275
Repairs and maintenance	37,463	46,707
Research & development	14,481	2,637
Royalties	7,189	5,046
Stock based compensation (Note 17(e))	72,482	75,361
Transfer agent & shareholder information	23,296	26,864
Travel	283,065	377,295
Wages and benefits	2,068,456	1,939,361
	4,442,124	4,403,534
<b>Income (loss) from operations</b>	<b>392,415</b>	<b>(62,904)</b>
Current income tax expense	(27,000)	-
Future income tax expense	(82,000)	(184,000)
	(109,000)	(184,000)
<b>Net income (loss) and comprehensive income (loss) for the year</b>	<b>283,415</b>	<b>(246,904)</b>
<b>Deficit, beginning of year</b>	<b>(3,805,608)</b>	<b>(3,558,704)</b>
<b>Deficit, end of year</b>	<b>(3,522,193)</b>	<b>(3,805,608)</b>
<b>Earnings (loss) per share</b>		
Basic	\$ 0.02	\$ (0.02)
Diluted	0.02	(0.02)
<b>Weighted average number of shares outstanding</b>		
Basic	12,001,583	12,001,583
Diluted	12,004,015	12,001,583

See accompanying notes to the consolidated financial statements

**PYNG MEDICAL CORP.**

**Consolidated Statements of Cash Flows**

*For the Years Ended September 30, 2010 and 2009  
(Expressed in Canadian Dollars)*

	<b>2010</b>	<b>2009</b>
<b>Cash provided from (used for)</b>		
<b>Operating activities</b>		
Net income (loss) for the year	\$ 283,415	\$ (246,904)
Items not involving cash		
Amortization of deferred product development costs	336,797	192,165
Amortization of website development costs	9,707	
Amortization - other	132,920	162,668
Accreted interest on convertible debentures	32,417	4,473
Stock-based compensation	72,482	75,361
Accrued interest	-	9,631
Income tax expense	109,000	184,000
Unrealized foreign exchange loss (gain)	19,160	(31,725)
	<b>995,898</b>	<b>349,669</b>
Net change in non-cash working capital items		
Accounts receivable	(364,336)	451,259
Other receivable	(45,614)	-
Inventories	19,224	93,878
Prepaid expenses	11,828	56,032
Accounts payable and accrued liabilities	171,335	(903,139)
	<b>788,335</b>	<b>47,699</b>
<b>Financing activities</b>		
Decrease in restricted cash	-	159,630
Drawn down from bank line of credit	258,081	-
Repayment on loan payable	(256,697)	(190,672)
Proceeds from convertible debentures	-	545,000
Payment of financing cost	-	(108,296)
Warrants issued for cash	-	2,725
	<b>1,384</b>	<b>408,387</b>
<b>Investing activities</b>		
Deferred product development costs incurred	(511,506)	(618,428)
Patent costs incurred	(75,055)	(99,579)
Website development cost incurred	(34,747)	-
Acquisition of property and equipment	(7,386)	(114,350)
Additions to intellectual property rights	(13,383)	(53,793)
	<b>(642,077)</b>	<b>(886,150)</b>
<b>Effect of exchange rate changes on cash</b>	<b>(17,180)</b>	<b>(13,360)</b>
<b>Increase (decrease) in cash</b>	<b>130,462</b>	<b>(443,424)</b>
<b>Cash, beginning of year</b>	<b>152,531</b>	<b>595,955</b>
<b>Cash , end of year</b>	<b>\$ 282,993</b>	<b>\$ 152,531</b>
<b>Supplemental information</b>		
Interest paid	\$ 138,047	\$ 103,251

See accompanying notes to the consolidated financial statements

**PYNG MEDICAL CORP.**

*Notes to Consolidated Financial Statements*

*For the Years Ended September 30, 2010 and 2009*

*(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, **FASTx™** Sternal Intraosseous Device, **TPOD®** Pelvic Stabilizer, **MAT®** Tourniquet, and **CRIC™** Cricothyrotomy System.

On June 9, 2008, the Company incorporated its wholly-owned subsidiary, Pyng Medical USA Corp., in the State of Washington in the U.S.A. to enhance the distribution of its products and opened an office in Kirkland, Washington in February 2010.

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 renewal of existing credit facilities and issuance of new equity or debt instruments. There can be no assurance that these initiatives will be successful.

As at September 30, 2010, the Company has cash in the amount of \$282,993 (2009 - \$152,531) and working capital in the amount of \$761,255 (2009 - \$654,606). The Company’s working capital, together with the credit facilities as described in Note 14 are expected to be sufficient to fund anticipated cash requirements over the next year.

**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.

## **2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

### **b) Use of Estimates**

The presentation of consolidated financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions which affect the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the period. Significant areas requiring the use of estimates include the rates of amortization for property and equipment, 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, 2010 and 2009, the Company did not have any cash equivalents.

### **d) Inventories**

Raw materials, work-in-progress and finished goods are measured at the lower of the 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:

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### e) Property and Equipment (Continued)

<b>Assets</b>	<b>Annual Rate</b>	<b>Basis</b>
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

### f) Research and Development Costs

The Company has been in the process of researching and developing a medical device on the **FASTI™** Intraosseous Infusion System. All product development and related administrative costs, incurred prior to and after commencement of commercial production, that meet the criteria of the Canadian Institute of Chartered Accountants (“CICA”) Handbook Section 3064 – “Goodwill and Intangible Assets”, have been capitalized. All other expenditures for research and improvement of the **FASTI™** Intraosseous Infusion System are expensed as incurred. The accumulated capitalized costs are being amortized on a per unit basis based on the sales volume projection for the next 4 years. The unamortized deferred product development costs are reviewed annually and should the review indicate that the basis of amortization requires modification, the change will be applied prospectively.

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

## **2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

### **i) Intellectual Property Rights**

All the costs incurred to acquire patents, trademarks, and other intellectual and industrial property rights related to TPOD®, MAT®, and CRIC™ have been capitalized. The costs are not amortized since the Company considers them to have an indefinite life.

### **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 their relative fair value using 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.

## **2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

### **m) Earnings Per Share (Continued)**

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.

### **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 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, 2010 and 2009, there has been no impairment loss recognized.

## **2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

### **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:

- 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.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 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. All derivative instruments, including embedded derivatives, are recorded in the balance sheet at fair value unless they qualify for the normal sales and purchases exemption. Changes in the fair value of derivatives that are not exempt are recorded in the statement of operations. Transaction costs on the acquisition of financial assets and liabilities that are classified as other than held-for-trading are expensed. The Company's financial assets and liabilities are initially recorded at fair value and subsequently measured based on their assigned classifications as follows:

<b>Asset/Liability</b>	<b>Category</b>	<b>Measurement</b>
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

### 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) Financial Instruments – Disclosures**

In June 2009, 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 Company adopted this standard in 2010 and the required disclosures have been inserted in Notes 6.

#### **b) Capital Disclosures**

The CICA issued a new accounting standard, Section 1535, “Capital Disclosures”, which requires the disclosure of both qualitative and quantitative information that provides users of financial statements with information to evaluate the entity’s objectives, policies and processes for managing capital. This new section was effective for the Company beginning October 1, 2008.

#### **c) General Standards of Financial Statement Presentation**

The CICA approved amendments to CICA Handbook Section 1400, “General Standards of Financial Statement Presentation”. These amendments require management to assess an entity’s ability to continue as a going concern. When management is aware of material uncertainties related to events or conditions that may cast doubt on an entity’s ability to continue as a going concern, those uncertainties must be disclosed. In assessing the appropriateness of the going concern assumption, the standard requires management to consider all available information about the future, which is at least, but not limited to, twelve months from the balance sheet date. The new requirements of the standard are applicable for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008.

#### **d) Goodwill and Intangible Assets**

On January 8, 2008, the CICA issued Section 3064, “Goodwill and Intangible Assets”. Section 3064 establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. Section 3064 is effective for annual and interim financial statements relating to fiscal years beginning on or after October 1, 2008. This section had no material impact on the Company’s financial position or results of operations.

#### **4. FUTURE ACCOUNTING PRONOUNCEMENTS**

##### **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 Company does not expect the adoption of this pronouncement to impact the 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 Company does not expect the adoption of these pronouncements to impact its financial statements in fiscal 2011.

##### **c) Multiple Deliverable Revenue Arrangements**

In February 2010, the Emerging Issues Committee of the CICA issued EIC-175, Multiple Deliverable Revenue Arrangements (“EIC-175”). EIC-175 provided guidance on how to determine whether an arrangement involving multiple deliverables contains more than one unit of accounting and addressed how arrangement consideration should be measured and allocated to the separate units of accounting in the arrangement. This section applies to revenue arrangements with multiple deliverables entered into or materially modified in the first annual fiscal period beginning on or after January 1, 2011. The Company does not expect the adoption of this standard to have an impact on its financial statements.

#### **4. FUTURE ACCOUNTING PRONOUNCEMENTS (Continued)**

##### **d) International Financial Reporting Standards (“IFRS”)**

In 2006, the Canadian Accounting Standards Board (“AcSB”) published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five year transitional period. In February 2008, the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada’s own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011, requiring the restatement for comparative purposes of amounts reported by the Company for the year ended December 31, 2010.

The Company has completed a preliminary assessment of the accounting and reporting differences under IFRS as compared to Canadian GAAP. However, management has not yet finalized its determination of the impact of these differences on the financial statements. In the period leading to the changeover, the AcSB will continue to issue accounting standards that are converged with IFRS. The Company will also continue to monitor and assess the impact of the convergence of IFRS on its information system and financial statements.

#### **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. Currently, the Company is in full compliance with its capital risk management policies. The Company’s Board of Directors approves management’s annual capital expenditures plans and reviews and approves any material debt borrowing plans proposed by the Company’s management.

To effectively manage the entity’s capital requirements, the Company has 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.

**PYNG MEDICAL CORP.**

*Notes to Consolidated Financial Statements*

*For the Years Ended September 30, 2010 and 2009*

*(Expressed in Canadian Dollars)*

---

**6. FINANCIAL INSTRUMENTS AND RISKS**

As at September 30, 2010 and 2009, 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, bank credit facility, loan payable and convertible debentures.

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 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 fair value of the Company's cash, accounts receivable, other receivables accounts payable and accrued liabilities and the current portion of the bank loan, approximate the carrying amounts due to their short-term nature. The fair value of the variable interest rate long-term portion of the bank loan is equivalent to the carrying value as the loan bears interest at a rate which varies according to the market rate. 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 similar investments. The fair value as at September 30, 2010 was determined to be \$390,065 (2009 - \$357,648), compared to the carrying amount of \$306,454 (2009 - \$252,478). 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 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.

## **6. FINANCIAL INSTRUMENTS AND RISKS (Continued)**

### **a) Credit Risk (Continued)**

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 78% (2009 - 76%) of revenues for the year ended September 30, 2010. 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 79% (2009 - 64%) of the accounts receivable balance as at September 30, 2010.

### **b) 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. The Company does not use derivative instruments to reduce its exposure to foreign currency risk. The significant change in the exchange rate between the Canadian dollar and U.S. dollar could have an effect on the Company's results of operations, financial position and cash flows.

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 \$4,000 (2009 - \$34,000). If the Canadian dollar depreciated one percent against US dollar, there would be an equal and opposite impact on the net income.

### **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, line of credit, bank loan 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 September 30, 2010, the Company has cash of \$282,993 (2009 - \$152,531) and working capital of \$761,255 (2009- \$654,606).

**PYNG MEDICAL CORP.**

Notes to Consolidated Financial Statements

For the Years Ended September 30, 2010 and 2009

(Expressed in Canadian Dollars)

**6. FINANCIAL INSTRUMENTS AND RISKS (Continued)****c) Liquidity Risk (Continued)**

The following is an analysis of the contractual maturities of the Company's financial liabilities as at September 30, 2010:

	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	772,637	772,637	-	-	-	-	-
Bank line of credit	258,081	258,081	-	-	-	-	-
Loan payable	485,309	281,251	204,058	-	-	-	-
Convertible debenture	306,454	-	-	-	306,454	-	-
Operating lease	53,484	53,484	-	-	-	-	-
	<b>\$ 1,875,965</b>	<b>\$ 1,365,453</b>	<b>\$ 204,058</b>	<b>\$ -</b>	<b>\$ 306,454</b>	<b>\$ -</b>	<b>\$ -</b>

**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 \$19,000 (2009 - \$7,000).

**7. INVENTORIES**

	2010		2009	
Raw materials and work in progress	\$	407,002	\$	400,496
Inventory in transit		1,426		-
Finished goods		32,635		68,817
	<b>\$</b>	<b>441,063</b>	<b>\$</b>	<b>469,313</b>

**8. DEFERRED PRODUCT DEVELOPMENT COSTS**

	2010		2009	
Deferred product development costs	\$	5,575,926	\$	5,165,881
Less: accumulated amortization		(2,552,882)		(2,216,085)
	<b>\$</b>	<b>3,023,044</b>	<b>\$</b>	<b>2,949,796</b>

As of September 30, 2010, the deferred development costs related to **CRIC**<sup>TM</sup> and **FASTx**<sup>TM</sup> in the amount of \$1,810,410 (2009 - \$1,400,365) have not been amortized.

**PYNG MEDICAL CORP.***Notes to Consolidated Financial Statements**For the Years Ended September 30, 2010 and 2009**(Expressed in Canadian Dollars)***9. GOVERNMENT ASSISTANCE**

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

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

**10. PROPERTY AND EQUIPMENT**

<b>2010</b>	<b>Cost</b>	<b>Amortization</b>	<b>Net Book Value</b>
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
	<b>\$ 906,211</b>	<b>\$ 754,477</b>	<b>\$ 151,734</b>

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

**11. WEBSITE DEVELOPMENT COSTS**

	<b>2010</b>	<b>2009</b>
Website development costs	\$ 58,244	\$ -
Less: accumulated amortization	(9,707)	-
	<b>\$ 48,537</b>	<b>\$ -</b>

**PYNG MEDICAL CORP.**

Notes to Consolidated Financial Statements

For the Years Ended September 30, 2010 and 2009

(Expressed in Canadian Dollars)

**12. PATENTS**

		<b>2010</b>		<b>2009</b>
Patents	\$	464,114	\$	393,250
Less: accumulated amortization		(201,833)		(155,422)
	<b>\$</b>	<b>262,281</b>	<b>\$</b>	<b>237,828</b>

**13. INTELLECTUAL PROPERTY RIGHTS**

		<b>2010</b>		<b>2009</b>
Balance, beginning of the year	\$	2,507,184	\$	2,550,786
Addition		13,383		53,793
Reversal of accrued liabilities		-		(97,395)
Balance, end of the year	<b>\$</b>	<b>2,520,567</b>	<b>\$</b>	<b>2,507,184</b>

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

In order to partially fund the acquisition, the Company obtained a bank loan in the amount of \$1,000,000. As part of that financing, the Company also issued 110,000 common share purchase warrants to the bank at an exercise price of \$0.55. Each warrant is exercisable to purchase one common share of the Company until the date the loan is repaid or no later than June 6, 2013.

**PYNG MEDICAL CORP.**

Notes to Consolidated Financial Statements

For the Years Ended September 30, 2010 and 2009

(Expressed in Canadian Dollars)

**13. INTELLECTUAL PROPERTY RIGHTS (Continued)**

The acquisition has been accounted for as a purchase of assets, and the consideration of \$2,737,913 was allocated to the assets acquired based on the estimated fair values on the date of acquisition as set out below:

<b>Assets acquired</b>	<b>Amount</b>	
Accounts receivable	\$	73,223
Inventories		113,904
Intellectual property rights *		2,550,786
	<b>\$</b>	<b>2,737,913</b>
<b>Consideration</b>		
Cash	\$	1,784,003
Contingent payments **		953,910
	<b>\$</b>	<b>2,737,913</b>

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

\*\* In February 2009, the Company became aware that the achievement of certain milestones will most likely not occur within the next twelve months. As a result, US\$637,586 (Canadian equivalent of \$656,587) was classified as other long term liabilities as at September 30, 2010 and 2009.

**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 line of credit is subject to financial covenants pertaining to certain ratios. As at September 30, 2010, \$258,081 has been drawn down from this credit facility (2009 - \$Nil).

**15. LOAN PAYABLE**

	<b>2010</b>		<b>2009</b>	
Promissory note payable in Canadian dollars, interest at prime plus 8% per annum, monthly blended payments of \$26,724 until May 15, 2012, secured by a general security agreement over all assets of the Company, subject to financial covenants pertaining to certain ratios, common share purchase warrants of 110,000 attached, (Notes 13 and 17)	\$	485,309	\$	742,006
Less: current portion		(281,251)		(254,815)
	<b>\$</b>	<b>204,058</b>	<b>\$</b>	<b>487,191</b>

**PYNG MEDICAL CORP.**

Notes to Consolidated Financial Statements

For the Years Ended September 30, 2010 and 2009

(Expressed in Canadian Dollars)

**15. LOAN PAYABLE (Continued)**

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

1 - 12 months	\$	320,693
13 - 23 months		212,519
	\$	<b>533,212</b>

**16. CONVERTIBLE DEBENTURES**

		<b>2010</b>		<b>2009</b>
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)		(83,611)		(105,270)
Interest accretion		36,890		4,473
Debt portion of convertible debentures	\$	<b>306,454</b>	\$	<b>252,378</b>

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.

As of September 30, 2010, accumulated interest payable was \$Nil (2009 - \$9,631).

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

## 17. SHARE CAPITAL

### a) Authorized

100,000,000 common shares without par value

### b) Issued and Outstanding

	Number of Shares	Amount	Contributed Surplus
<b>Balance, September 30, 2008</b>	<b>12,001,583</b>	<b>\$ 7,844,724</b>	<b>\$ 474,395</b>
Fair value of options issued	-	-	75,361
Fair value of warrants issued	-	-	2,725
<b>Balance, Septemebr 30, 2009</b>	<b>12,001,583</b>	<b>\$ 7,844,724</b>	<b>\$ 552,481</b>
Fair value of options issued	-	-	72,482
<b>Balance, September 30, 2010</b>	<b>12,001,583</b>	<b>\$ 7,844,724</b>	<b>\$ 624,963</b>

### c) Escrow Shares

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.

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

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

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

As at September 30, 2010, 300,000 (2009 – 900,000) shares were held in escrow to be released pro-rata over a three year period in accordance with TSX Venture Exchange policies.

### d) Warrants

On August 10, 2009, the Company issued 2,725,000 common share purchase warrants at \$0.001 per warrant as part of the convertible debt financing agreement. Each warrant is exercisable to purchase one common share of the Company at \$0.22 per share until the date the loan is repaid or no later than August 10, 2014.

**PYNG MEDICAL CORP.**

Notes to Consolidated Financial Statements

For the Years Ended September 30, 2010 and 2009

(Expressed in Canadian Dollars)

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

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

	2010		2009	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
Outstanding, beginning of year	2,835,000	\$ 0.23	110,000	\$ 0.55
Issued	-	-	2,725,000	0.22
Outstanding, end of year	<b>2,835,000</b>	<b>\$ 0.23</b>	<b>2,835,000</b>	<b>\$ 0.23</b>

As at September 30, 2010, 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
<b>2,835,000</b>		

**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, 2010, the total of 1,166,200 (2009 – 1,066,200) stock options have been granted out of the 1,200,158 pool under this plan with the balance of 33,958 (2009 – 133,958) 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:

	2010		2009	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding, beginning of year	1,066,200	\$ 0.35	1,050,000	\$ 0.44
Granted	230,000	0.20	461,200	0.22
Forfeited	(130,000)	0.43	(445,000)	0.43
Outstanding, end of year	<b>1,166,200</b>	<b>\$ 0.31</b>	<b>1,066,200</b>	<b>\$ 0.35</b>

**PYNG MEDICAL CORP.***Notes to Consolidated Financial Statements**For the Years Ended September 30, 2010 and 2009**(Expressed in Canadian Dollars)***17. SHARE CAPITAL (Continued)****e) Stock Options (Continued)**

As at September 30, 2010, the following stock options were outstanding:

<b>Options Outstanding</b>			<b>Options Exercisable</b>
<b>Number of Options</b>	<b>Exercise Price</b>	<b>Expiring Date</b>	<b>Number of Option</b>
275,000	\$ 0.45	23-May-11	275,000
20,000	\$ 0.43	16-Jul-11	20,000
20,000	\$ 0.42	14-Aug-11	20,000
10,000	\$ 0.34	21-Aug-11	10,000
60,000	\$ 0.35	12-Dec-11	60,000
81,200	\$ 0.23	10-May-13	54,133
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	33,333
300,000	\$ 0.23	19-Jul-14	200,000
30,000	\$ 0.17	10-Aug-14	20,000
50,000	\$ 0.20	15-Nov-14	16,667
150,000	\$ 0.20	9-Mar-15	50,000
<b>1,166,200</b>			<b>879,133</b>

As at September 30, 2010, 879,133 (2009 – 548,334) stock options were vested and exercisable, and the fair value of \$72,482 (2009 - \$75,361) 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.

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

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

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

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

## 17. SHARE CAPITAL (Continued)

### e) Stock Options (Continued)

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:

	<b>2010</b>	<b>2009</b>
Dividend yield	Nil	Nil
Expected volatility	82% - 83%	86% - 87%
Risk-free interest rate	3.72%	3.72%
Expected life	<b>4 - 5 years</b>	<b>4 - 5 years</b>

## 18. 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:

	<b>2010</b>	<b>2009</b>
Statutory tax rate	28.80%	30.00%
Income tax expense (recovery) at statutory rate	\$ 108,000	\$ (19,000)
Increase (reduction) in income taxes:		
Permanent differences and other	17,000	(6,000)
Tax losses (utilized) expired	(26,000)	228,000
Effect of tax rate change	10,000	(19,000)
<b>Total income tax expense</b>	<b>\$ 109,000</b>	<b>\$ 184,000</b>

### 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, 2010 and 2009 are as follows:

**PYNG MEDICAL CORP.**

Notes to Consolidated Financial Statements  
For the Years Ended September 30, 2010 and 2009  
(Expressed in Canadian Dollars)

**18. INCOME TAXES (Continued)**

**b) Future Income Taxes (Continued)**

	<b>2010</b>	<b>2009</b>
Future income tax assets (liabilities)		
Non-capital loss carry forwards	\$ 358,000	\$ 374,000
Finance fee	7,000	4,000
Property and equipment	7,000	23,000
Deferred product development costs	(537,000)	(523,000)
Patents	32,000	33,000
Intellectual property rights	(328,000)	(263,000)
<b>Net future income tax liabilities</b>	<b>\$ (461,000)</b>	<b>\$ (352,000)</b>

As at September 30, 2010, the Company has non-capital losses carried forward of approximately \$1,004,000 (2009 - \$1,096,000) in Canada and \$44,000 (2009 - \$63,000) in U.S.A., which expire over the years 2028 to 2030.

**19. RELATED PARTY TRANSACTION**

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, 2010, consulting fees of \$127,038 (2009 - \$222,305) and directors fees of \$101,949 (2009 - \$82,105) were paid or accrued to the directors and officers of the Company.

As at September 30, 2010, \$9,393 (2009 - \$15,378) was owing to directors for consulting fees and expense reimbursements. The amount is included in accounts payable.

**b) Contractual Commitments with Directors**

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

**20. 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:

**PYNG MEDICAL CORP.**

*Notes to Consolidated Financial Statements*

*For the Years Ended September 30, 2010 and 2009*

*(Expressed in Canadian Dollars)*

---

**20. SEGMENTED INFORMATION (Continued)**

	2010		2009	
	Percentage	Amount	Percentage	Amount
U.S.A.	92%	\$ 6,534,321	90%	\$ 5,424,624
Other	8%	554,516	10%	\$ 601,553
	<b>100%</b>	<b>\$ 7,088,837</b>	<b>100%</b>	<b>\$ 6,026,177</b>

**21. COMMITMENTS**

The Company has a five-year lease commitment on its Richmond production premises. The Company is required to pay base rent of \$4,337 per month for the first two years and \$4,457 per month for the last three years. The lease expires on September 30, 2011.