

PYNG MEDICAL CORP.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Years Ended September 30, 2010 and 2009

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 position of the Company should be read in conjunction with the audited financial statements for the year ended September 30, 2010 and the related notes therein. The effective date of this report is December 14, 2010. 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, 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 and the impact of currency exchange rates and interest rates.

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 7, 13511 Crestwood Place, Richmond, BC V6V 2E9. The Company's registered and records office is located at 15th Floor, 1055 West Georgia Street, Vancouver, B.C., V6E 4N7. 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. Each product in the portfolio meets the ease of clinician to use, safety, efficacy, and overall competitive value criteria essential for life saving trauma products.

The Company sells its products worldwide directly and through distribution partners to military, hospital, EMS, government agency, and law enforcement customers, primarily in the U.S.A., Europe and Australia. Pyng has expanded its distribution network in 2009 with the addition of a large Hospital focused specialty distributor. This hospital focus plus Pyng's well-established national pre-hospital distributor is the largest EMS distributor in the United States, serving all states and the Department of Defence.

PYNG PRODUCT PORTFOLIO

Pyng has researched, developed and commercialized a proprietary intraosseous infusion system, the Pyng **FASTI**® Intraosseous Infusion System, which has been granted numerous patents in the U.S.A., Mexico, Canada and Europe. The **FASTI**® Intraosseous (IO) Infusion System that 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.

FASTx™ *Sternal Intraosseous Device* is the Company's next generation lead clinical product which is re-engineered from FAST1. This all-in-one FASTx™ is light, compact and requires no additional tools or pre-use incisions to provide fluids, medication, and blood quickly and easily. The built-in anatomical land marking allows placement even in challenging conditions. While automatic depth-control eliminates the guesswork around how deep to go providing for clear and confident vascular access, the new target foot, now integrated into the device, provided for stability and aids in proper alignment to deploy simply. The benefits that this new product provides allows for important new vascular access options for hospital systems, EMS services and Federal/Military customers. During fiscal 2010, the Company received regulatory clearance from Health Canada, CE Mark and US FDA to market its new and improved FASTx™ Sternal Intraosseous Device.

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.

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 **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.

HIGHLIGHTS FOR FISCAL YEAR 2010

1. The Company achieved strong financial results in fiscal 2010. Annual sales of \$7.09 million set a new record as the highest level of revenue in the Company's history and the net income before tax rose 700% to \$392,415. The Company generated \$995,898 in cash before any changes in working capital, up \$646,229 or 186% from fiscal 2009. The approximate mix of revenue between Trauma Care product (TPOD & MAT) and IO (FAST1) was 12% and 88%, respectively (2009 – 33% and 67%). The flagship product the FAST1® Intraosseous Infusion System is still the largest selling Sternal IO System with 19,660 units shipped out.
2. During fiscal 2010, the Company received regulatory clearance from Health Canada, CE Mark and US FDA to market its new and improved FASTx™ Sternal Intraosseous Device. On April 1, 2010, the Company also received Australian TGA clearance for its new and innovative CRIC™ Kit Cricothyrotomy device.
3. On April 20, 2010, the Company received response from the United States Food and Drug Administration ("FDA") on its product CRIC™ Kit Cricothyrotomy device. The Company pursued FDA approval to market CRIC™ in the United States via 510(k) premarket notification. FDA determined CRIC™ to not be substantially equivalent to the predicate device (a legally marketed device in its category) used in the company's submission and therefore is not eligible to be cleared for commercial distribution via the 510(k) process. Due to this result, the Company intends to pursue a different path to FDA clearance and will resubmit CRIC™ for review after obtaining additional data and field-usage experience on the safety and efficacy of the product.
4. In February 2010, the Company opened a US sales office in Kirkland, Washington to service the growing demand for Pyng's line of resuscitative care solutions in the United States. The Kirkland office expands the Company's ability to offer sales and support services to its fast growing base of American customers, distribution partners and prospects.
5. In February 2010, the Company signed a logistics and customer service agreement with the distribution company Healthlink Europe to open a warehouse in Netherland to facilitate the expected sales increase of the new products in European market. Healthlink Europe will serve as a representative of PYNG in Europe and process the sales orders directly, which will speed up distribution and reduce shipping costs.
6. On July 22, 2010, the Company obtained recertification to ISO 13485:2003 standard and has certified to the new ISO 9001:2008 standard. PYNG also retained their CE Mark for CRIC™ Cricothyrotomy system, **FASTI**® Intraosseous Infusion System and FASTx™ Sternal Intraosseous Device without any major or minor nonconformities. This process, which occurs every three years, confirms PYNG's ability to meet or exceed the stringent Quality Management System protocols and the regulations required of the medical device industry throughout the world.
7. In July 2010, the Company signed a distribution agreement with an Indian dealer to expand the market opportunity in Asia-Pacific markets. Pyng's dominance in Sternal IO for deployed U.S. military will be leveraged into the Indian Military, EMS and Hospital markets. The Company also started the registration process in China during fiscal 2010 to open the big market opportunity.

8. The Company continued to invest in marketing tools and campaigns to actively pursue our marketing objectives. A new website had been constructed since February 2010 and was launched on August 19, 2010. The Company expect this new website will better communicate the products to the markets and improve our relationship with customers that result in value for both customers and the Company.

SUBSEQUENT TO SEPTEMBER 30, 2010

1. On November 16, 2010, the Company initiated a voluntary recall of the FASTx™ Sternal Intraosseous Device. Pyng received feedback regarding inconsistent performance in several early training sessions that were conducted shipment of future devices shipped to distributors. Pyng has discontinued shipment of future devices until it can evaluate these happenings and determine root cause. Pyng's technical team is working rapidly to analyze these events and determine a course of action. During this period of FASTx™ evaluation, the FAST1® continued to ship to customers desiring the benefits of sternal IO, anatomical land marking, automatic depth control, and secure placement.
2. In October 2010, the Company entered into an agreement to acquire an intellectual property FASTInfo to expand the patent portfolio. FASTInfo would develop a light-weight integrated health monitoring device for the Army to improve the ability of medical personnel to triage and treat victims in the event of a mass casualty incident.

STRATEGIC PRIORITY FOR FISCAL 2011

1. Focus on FASTx re-launch from voluntary recall.
2. Additional Class 1 product modification.
3. Develop acquisition opportunities to expand product portfolio
4. Pursue CRIC regulatory path to market with FDA.
5. Diversify and maximize the market by sector, geography and product.
6. Set up supply chain for significant cost reduction
7. Continue to drive revenue growth, profit growth and shareholder value.

SELECTED ANNUAL INFORMATION

	2010	2009	2008
Total sales	\$ 7,088,837	\$ 6,026,177	\$ 6,549,588
Net income (loss) after tax	283,415	(246,904)	309,525
Earning (loss) per share	0.02	(0.02)	0.03
Total assets	8,079,387	7,561,364	7,831,848
Total long-term liabilities	1,628,099	1,775,189	882,190
Cash dividend declared	Nil	Nil	Nil

RESULTS OF OPERATIONS

Revenues

During fiscal 2010, the Company achieved a new record of annual revenue of \$7,088,837 in the Company's history, representing 17.63% increase compared to fiscal 2009 of \$6,026,177. The increases in the Company's revenue, the majority of which are in U.S. dollars, are driven by the U. S. military orders received in the fourth quarter. Our flagship product, the FAST1® Intraosseous Infusion System is still the largest selling Sternal IO System with 19,660 units shipped out during this year.

Gross Margin

Gross margin for the year ended September 30, 2010 amounted to \$4,834,539, an increase of \$493,909 from \$4,340,630 reported for fiscal 2009. The gross margin as a percentage of revenues decreased from 72% to 68% when compared to last fiscal year. This decrease in gross margin was primarily due to the U.S. revenue precipitated by strengthening Canadian dollar against U.S. dollar during the fiscal 2010.

Expenses

The expenses for the year ended September 30, 2010 totalled \$4,442,124, which increased by \$38,590 compared to \$4,403,534 for fiscal 2009. On a percentage basis, expenses decreased from 73% of sales for fiscal 2009 to 63% for fiscal 2010. The decrease was mainly related to the lower legal costs, consulting fees and other cost-saving measures. The four largest expense categories are wages and benefits of \$2,068,456, professional fees of \$374,281, consulting fees of \$341,038, and amortization of deferred product development cost of \$336,797. These expenses comprised approximately 70% of the total expenses of the Company.

Wages and benefits for fiscal 2010 amounted to \$2,068,456 (2009 - \$1,939,361), or approximately 47%, of the total expenses, which increased by \$129,095 compared with last fiscal year. These expenses included the base salaries and wages, bonus expenses and other benefits for the employees. The increase was mainly attributable to the expansion of the sales force to capitalize on the growth with international approvals for CRIC and FASTx and the severance pay to the former CEO.

Professional fees for the year ended September 30, 2010 was \$374,281 (2009 - \$535,855), decreased by 30% compared with fiscal 2009. This expense category comprised of legal fees, investor relations and accounting and auditing fees. The decrease on legal cost contributed majority of the decrease for this year.

Consulting fees of \$341,038 (2009 - \$432,537) was recorded in fiscal 2010, which decreased by \$91,499 or 21% compared with fiscal 2009. The reduction was primarily due to the decrease on consulting fee for financing and administration.

Foreign exchange loss of \$45,838 was recorded for fiscal 2010 compared to foreign exchange gain of \$153,510 for last year. During the fiscal 2010, the Canadian dollar against U.S dollar has been significantly strengthened, based on the period ending rate. Since the company does not use derivative instruments to reduce its exposure to foreign currency risk, the monetary assets and liabilities dominated in U.S. dollar are translated at each balance sheet date with resulting gains and losses recorded in income statement.

PYNG MEDICAL CORPORATION
Management's Discussion and Analysis
For the Years Ended September 30, 2010 and 2009
(Expressed in Canadian Dollars)

Net Income before Tax

Net income before tax for the year ended September 30, 2010 was \$392,415, an increase of \$455,319 compared to loss \$62,904 for last year. The net income recorded was mainly attributable to the increase in sales and the reduction on the operating expenses.

SUMMARY OF QUARTERLY RESULTS

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

	Sep. 30	Jun. 30	Mar. 31	Dec. 31	Sep. 30	Jun. 30	Mar. 31	Dec. 31
	2010	2010	2010	2010	2009	2009	2009	2009
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Total sales	\$ 2,633,795	\$ 1,290,643	\$ 1,578,715	\$ 1,585,684	\$ 1,718,272	\$ 1,288,743	\$ 1,385,177	\$ 1,633,985
Gross margin	1,794,944	831,124	1,075,565	1,132,906	1,302,238	900,292	972,948	1,165,152
Expenses	1,064,256	925,114	1,350,593	1,102,161	1,263,709	1,001,810	1,110,874	1,211,140
Net income (loss)	620,716	(92,990)	(275,028)	30,717	38,529	(101,518)	(137,926)	(45,989)
Earning (loss) per share	\$ 0.05	\$ (0.01)	\$ (0.02)	\$ 0.00	\$ 0.00	\$ (0.01)	\$ (0.01)	\$ (0.00)

FOURTH QUARTER RESULTS

The Company did not record extraordinary items, year-end or other adjustments or dispositions in the fourth quarter of fiscal year 2010 that had a material effect on the Company's financial condition, cash flow or results from operations.

The Company recorded sales of \$2,633,795 during the fourth quarter ended September 30, 2010, which increased by \$915,523 or 53% compared with the comparative quarter of fiscal year 2009 (2009 - \$1,718,272). The operating expenses for the fourth quarter totalled \$1,064,256 (2009 - \$1,263,709), a decrease of \$199,453, or 16% compared with the comparative quarter of last year. The net income for the quarter ended September 30, 2010 rose to \$620,716, up \$582,187 compared with the comparative quarter of fiscal year 2009 of \$38,529. The significant increase in sales largely contributed the increase in the net income.

LIQUIDITY AND SOLVENCY

The Company's principal sources of liquidity are cash provided by operations, borrowing under a bank loan and line of credit, and issuance of convertible debentures. The Company's short-term cash requirements are primarily to fund working capital and invest in product development and intangible assets for growth initiatives. Cash has also been used to finance an acquisition 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 September 30, 2010, the Company had cash of \$282,993 (2009 – \$152,531), representing an increase of \$130,462 compared with the balance as at the year ended September 30, 2009.

The cash provided by the operating activities for fiscal 2010 was \$788,335 (2009 - \$47,699), up \$740,636 compared with the cash flow generated \$47, 699 during the last year. The increase in sales and non-cash expenses contributed the majority of the cash inflow from the operating activities.

For the cash flow on financing activities, as at September 30, 2010, the Company withdrew \$258,081 (2009 - \$Nil) from its line of credit to fund the cash requirements for the operating and research and development activities. During the fiscal year 2010, the Company paid back \$256,697 (2009 – \$190,672) on principle of the bank loan.

The cash used by the investing activities, including the expenditures on product development, acquisition on property and equipment, website development, patent and other intangible assets, in the ordinary course of business for the year ended September 30, 2010 amounted to \$642,077 (2009 - \$886,150), which decreased by \$244,073, or 28% compared with fiscal year 2009. The reduction was mainly attributable to the reduced cash expenditures on product development cost and intangible assets offset by the website development cost incurred in fiscal 2010.

Working Capital

As at September 30, 2010, the Company had a working capital position of \$761,255 (2009 - \$654,066), which increased \$107,189 compared with the year ended September 30, 2009. This increase was mainly attributable to the increase in cash balance and accounts receivable. The Company continues to have \$1 million bank credit facilities available to cover fluctuation in cash requirements. Management believes that the Company is sufficiently capitalized to meet its operating cash flow requirements in fiscal 2011.

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.

RELATED PARTY TRANSACTIONS

Related party transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

a) Payment to directors

During the year ended September 30, 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 any contractual commitments with directors.

OFF SHEET BALANCE SHEET ARRANGEMENTS

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

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with Canadian generally accepted accounting principles 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, 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.

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.

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 December 14, 2010, there has been no impairment loss recognized.

Stock-based Compensation

The fair value of each share purchase option grant is estimated on the date of the grant using the Black-Scholes option-pricing model. The amount of share-based compensation associated with any share purchase options that are granted will be estimated and expensed, based on the vesting schedule, using assumptions involving the estimated dividend yield, expected volatility, the risk-free interest rate and the expected lives of the share purchase options. See Note 17(e) to the audited consolidated financial statements for the year ended September 30, 2009.

Income taxes

The Company accounts for income taxes using the asset and liability method of accounting. Under this method, future income tax assets and liabilities are determined based on differences between the carrying amounts of balance sheet items and their corresponding tax values and loss carry-forwards. The determination of the income tax provision requires management to interpret regulatory requirements and to make certain judgments. While income tax filings are subject to audits and assessments, Management believes that adequate provision has been made for all income tax obligations. However, changes in the interpretations or judgments may result in an increase or decrease in the income tax provision in the future. The amount of any such increase or decrease cannot be reasonably estimated.

CHANGE IN ACCOUNTING POLICIES

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 Note 6 of the financial statements.

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.

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.

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.

FUTURE ACCOUNTING PRONOUNCEMENTS

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.

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.

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.

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.

Since the Company has a fiscal year end September 30, the transition date is October 1, 2010. The Company will report interim and annual financial statements, with comparatives, in accordance with IFRS beginning with the quarter ending December 31, 2011. The transition date of October 1, 2010 will require the restatement for comparative purposes of amounts reported by the Company for the year ended September 30, 2011, and of the amounts reported on the opening IFRS balance sheets as at October 1, 2010. To accomplish this, two parallel books of accounts will be maintained.

The Company has developed an IFRS implementation plan to prepare the organization for this transition. The implementation project consists of three primary phases:

1. Scoping and diagnostic phase, which involves the identification of the main differences, at a high level, between the Company's accounting policy under Canadian GAAP and the IFRS, and the key areas that may be impacted. The areas with the highest potential impact were identified to include initial adoption of IFRS 1, property and equipment, share-based compensation, financial instruments, income taxes, foreign exchange and impairment of assets.
2. Evaluation and design phase, which involves the detailed evaluation of existing differences in accounting treatment and disclosure requirements, the selection of accounting policies under IFRS, the impact related to the conversion on internal controls, accounting systems and other business process.
3. Implementation and review phase, which involves the application of the new IFRS accounting policies to opening balances and comparative figures as required, and making any system or procedural changes necessary to enable the provision of accurate and timely financial reporting in accordance with the new accounting policies.

To date, the Company has completed phase 1, and phase 2 & 3 are currently under way. The Company anticipates that there will be changes in accounting policies and these changes may materially impact the financial statements. 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.

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, 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 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 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.

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.

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.

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).

INTERNAL CONTROL OVER FINANCIAL REPORTING

The Company's management, with the participation of its CEO and CFO, are responsible for establishing 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 only in accordance with authorization of management and the Company's directors; and

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- 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 December 14, 2010, there are 12,001,583 common shares issued and outstanding.

	Number of Shares	Amount	Contributed Surplus
Balance, September 30, 2008	12,001,583	\$ 7,844,724	\$ 474,395
Fair value of options issued			75,361
Fair value of warrants issued			2,725
Balance, Septemebr 30, 2009	12,001,583	\$ 7,844,724	\$ 552,481
Fair value of options issued			72,482
Balance, September 30, 2010	12,001,583	\$ 7,844,724	\$ 624,963
Balance, Decemebr 14, 2010	12,001,583	\$ 7,844,724	\$ 624,963

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 December 14, 2010, the total of 866,200 (2009 – 1,066,200) stock options have been granted out of the 1,200,158 pool under this plan with the balance of 333,958 (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.

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:

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

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As at December 14, 2010, the following stock options were outstanding:

Options Outstanding			Options Exercisable
Number of Options	Exercise Price	Expiring Date	Number of Options
275,000	\$ 0.45	23-May-11	275,000
20,000	\$ 0.43	16-Jul-11	20,000
20,000	\$ 0.42	14-Aug-11	20,000
10,000	\$ 0.34	21-Aug-11	10,000
60,000	\$ 0.35	12-Dec-11	60,000
81,200	\$ 0.23	10-May-13	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	50,000
30,000	\$ 0.17	10-Aug-14	20,000
50,000	\$ 0.20	15-Nov-14	33,333
150,000	\$ 0.20	9-Mar-15	50,000
866,200			712,467

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 agreements. 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.

As at December 14, 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
2,835,000		

Escrow Shares

As at December 14, 2010, 300,000 (2009 – 900,000) shares were held in escrow to be released in March 2011 in accordance with TSX Venture Exchange policies.

ECONOMIC DEPENDANCE

The Company presently derives a substantial amount of its revenue from one distributor which contributed approximately 78% (2009 - 76%) of revenue 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.

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