

PYNG MEDICAL CORP.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Three Months Ended December 31, 2015 and 2014

PYNG MEDICAL CORPORATION

Management's Discussion and Analysis

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(Expressed in Canadian Dollars)

Management's Discussion and Analysis ("MD&A") is intended to help the reader understand the significant factors that have affected the Company and its subsidiary's performance and such factors that may affect its future performance. The following discussion and analysis of the operations, results, and financial conditions of the Company should be read in conjunction with the audited financial statements for the year ended September 30, 2015 and the related notes therein. The effective date of this report is February 22, 2016. 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.

1. FORWARD-LOOKING STATEMENTS

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

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

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

2. BUSINESS OVERVIEW

Pyng Medical Corp. (the "Company" or "Pyng") is a public company incorporated under the British Columbia Business Corporation Act, that maintains an office at Unit 210, 13480 Crestwood Place, Richmond, BC V6V 2J9. The Company's registered office is located at 595 Burrard Street, Suite 2600, Vancouver, B.C., V7X 1Z3. Pyng Medical USA Corp. is the Company's wholly owned subsidiary, which was incorporated 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 Medical Corp. engineers and markets award-winning trauma and resuscitation products for front-line critical care personnel world-wide. Pyng's product portfolio includes innovative sternal intraosseous (sternal IO), pelvic stabilization and tourniquet devices specifically designed and customized for both the military and civilian markets. With growing markets in North America, Europe and Asia, Pyng develops user-preferred medical devices for use by hospital staff, emergency medical services and military forces worldwide.

3. PRODUCT PORTFOLIO

FAST1® Intraosseous Infusion System

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

FASTResponder and FASTCombat Sternal Intraosseous Devices

FASTResponder and FASTCombat Sternal Intraosseous Devices have been the Company's next generation of IO products which were re-engineered from FAST1®. FASTResponder™ and FASTCombat™ were designed to be easy-to-deploy, and require no additional tools or pre-use incisions to provide fluids, medication, and blood quickly and easily. Built-in anatomical land marking 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. A new target foot provides for stability and aides in proper alignment. In November 2010, the Company initiated a voluntary recall due to the early feedback that performance was inconsistent in several early training sessions. Thereafter, the Company started a re-launch project to improve the previous designs and address the issues. In fiscal 2013, the Company completed the re-launch project and received regulatory approval for FASTResponder from Health Canada, CE Mark in Europe, and Food and Drug Administration ("FDA") in USA. The FASTResponder started commercial production and sales in August 2013. In fiscal 2014, the company completed the design efforts for the FASTCombat version of the new FASTR product line.

T-POD® Pelvic Stabilization Devices

The T-POD® Pelvic Stabilization Devices provide immediate treatment of simple and complex pelvic fractures by binding the pelvis to reduce pain, bleeding, haemorrhage, as well as morbidity and mortality risks. In fiscal 2013, Pyng formed a relationship with a new technology partner for Trauma products to yield new products in this category. Two new products were released. The first new product was called "T-PODCombat™", a new pelvic stabilization device focused on the needs of the military that can be packaged in a smaller space and introduced new materials for improved product performance. Another one is called "T-PODResponder™", which is a similar product targeting the civilian market with different colour and packaging.

MAT® Tourniquet

The MAT® Tourniquet is applied by the wounded patient (one-handed) or initial responder to quickly and effectively stop life threatening bleeding of any extremity to reduce the risk of limb loss and

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mortality. The E-MAT™ is a tourniquet marketed for the Emergency Medical Services (EMS) Market. It features a bright, EMS orange color, setting it apart from its surroundings and making it noticeable at an accident scene. With its new color, the E-MAT™ contains all the same award-winning features of the original MAT®. It is also lightweight and compact, making it an easy fit into any medical bag. By providing fast and easy application, even to trapped limbs, complete blood flow occlusion is achieved in 30 seconds. On May 1, 2014, the Company announced the launch of second generation tourniquet product MATResponder™, which offers advanced safety features, including a no-slip buckle, and uses of a unique mechanical advantage tourniquet system to provide first responders with safe compression in controlled increments. In fiscal 2014, the Company completed the design efforts for MATCombat™ and in fiscal 2015 completed MATResponder Elite™ as part of the MATR product line.

CRIC™ Complete Rapid Illuminated Cricothyrotomy

The **CRIC™** (Complete Rapid Illuminated Cricothyrotomy) is an innovative, life-saving medical product allowing 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 provides a rapid Cricothyrotomy 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. During fiscal 2012, the Company evaluated the recoverability of the intangible assets related to CRIC and believed that it was not probable to achieve the milestones described in the purchase agreement based on the current product development status and working capital position. As such, a net amount of \$1,229,440 intangible assets related to CRIC were written down and further product development is currently on hold, pending further discussions with the USA military and FDA.

New Product Development

The Company has made significant investments in new products, including FASTTactical. FASTT is a product line extension of FASTR and FASTC with new packaging. It is expected to be released in Q2 fiscal 2016.

4. RESULTS OF OPERATIONS

Revenues

The Company reported total sales of \$1,221,998 for the three months ended December 31, 2015, down \$292,077 or 19% from \$1,514,075 reported for the first quarter of last year. This decrease was primarily related to military product shipments being down from last year, although this decrease was partially offset by increased sales from the civilian market via the Company's trauma products. Fluctuations in military sales are not unexpected and are often resultant from the status of military budgets.

Gross Margin

Gross margin for the three months ended December 31, 2015 was \$550,418, a decrease of \$113,235 compared to \$663,653 reported a year ago. Gross margin as a percentage of sales increased to 45% this year from 44% reported a year ago, which was driven by product mix toward higher margin products.

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Expenses

Total operating expenses for the three months ended December 31, 2015 were \$1,081,381, up \$479,126 or 40% from \$772,695 reported for the first quarter of fiscal 2015. The increased expenses are primarily resultant from higher sales and marketing, general and administrative, and product research & development expenses, partially offset by lower amortization expenses, interest expenses and other finance costs. Higher sales, marketing, and R&D expenses are being cautiously driven by the Company's growth strategy, primarily through the launch of new products and expansion into the Civilian sector.

Research and product development expenses primarily consist of the salary and benefits paid to technical personnel, new product development costs that do not meet the capitalized standard under the IFRS, and travel and office expenses related to product development activities. For the three months ended December 31, 2015, research and product development expenses increased 18% to \$79,604, as compared to \$67,538 in the first quarter of last year. The increase was caused by higher legal fees incurred during the first quarter this year.

General and administrative expenses for the quarter ended December 31, 2015 were \$386,234, up \$72,853 or 23% compared to \$313,380 reported for the first quarter fiscal 2015. This increase is mainly attributed to higher consulting fees, payroll and benefits, travel expenses and facility costs this year, partially offset by the lower legal fees and regulatory expenses.

Sales and marketing expenses for the three months ended December 31, 2015 were \$417,250, an increase of \$232,569 or 126% compared to \$184,681 reported a year ago. Major contributors included payroll and benefits, advertising, conferences & expositions, travel expenses, marketing samples and supplies, and consulting fees.

Amortization of property and equipment for the quarter ended December 31, 2015 decreased to \$3,865 from \$4,180 due to the reduced carrying value amortized this year compared to the carrying value of the first quarter of last year.

Amortization of intangible assets for the quarter ended December 31, 2015 was \$85,785, which was slightly lower than \$86,338 reported a year ago, due to the lower amortization on the patents this year.

Total interest expenses of \$39,908 were reported for the first quarter fiscal 2016, down 9% or \$4,130 compared to \$44,038 for the first quarter fiscal 2015. This decrease was primarily attributable to the lower interests resulting from the lower principal balance of two promissory notes this year and absence of one short term loan which was settled by shares issuance in November 2015.

Other finance costs included amortization of deferred financing costs and accretion of interest on convertible debt which were amended in fiscal 2014 and 2015 (Note 12). The amount of \$19,433 was recorded for the quarter ended December 31, 2015, down \$4,791 or 20% compared to \$24,224 reported a year ago. This decrease reflected the lower amortization of deferred financing cost for convertible debt amended in fiscal 2015.

Foreign exchange gain or losses are attributable to the effect of the changes in the value of U.S. dollar, relative to the Canadian dollar, on the U.S. dollar denominated net monetary position. Foreign exchange loss of \$46,975 was recorded for the three months ended December 31, 2015, which primarily resulted from the strengthening U.S. dollar on the U.S. dollar denominated net liability position. Compared to the U.S. dollar, the reporting currency Canadian dollar weakened from 1.3345 at September 30, 2015 to

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1.3840 at December 31, 2015. For the comparative quarter of last year, the Canadian dollar weakened from 1.1200 at September 30, 2014 to 1.1601 at December 31, 2014.

Net Loss and Comprehensive Loss

Net loss for the three months ended December 31, 2015 was \$530,963, an increase of \$421,921, as compared to a net loss of \$109,042 reported for the first quarter last year. The increased loss was primarily attributed to the lower gross margin due to the lower sales from the military market. In addition, the higher operating expenses which reflected the Company's continuous efforts on the sales and marketing is another contributor for the increased loss this year.

SUMMARY OF QUARTERLY RESULTS

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

	Sep. 30 2015 Q1	Sep. 31 2015 Q4	Jun. 30 2015 Q3	Mar. 31 2015 Q2	Dec.31 2015 Q1	Sep. 30 2014 Q4	Jun. 30 2014 Q3	Mar. 31 2014 Q2
Total sales	\$ 1,221,998	\$ 2,875,046	\$ 1,974,772	\$ 1,650,528	\$ 1,514,075	\$ 1,326,330	\$ 947,772	\$ 1,466,392
Gross margin	550,418	1,265,545	895,100	848,637	663,653	519,322	493,545	665,612
Expenses	1,081,381	1,006,555	873,017	1,014,701	772,695	856,086	675,476	860,482
Net income (loss)	(530,963)	258,991	22,082	(166,064)	(109,042)	(336,746)	(181,931)	(194,870)
Earning (loss) per share	\$ (0.02)	\$ 0.01	\$ 0.00	\$ (0.01)	\$ (0.00)	\$ (0.01)	\$ (0.01)	\$ (0.01)

5. LIQUIDITY AND SOLVENCY

The Company's principal sources of liquidity are cash provided by operations, borrowing under a loan, and issuance of equity. 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 other aspects of the longer-term strategic business plan.

To help 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 December 31, 2015, the Company had cash of \$545,318, representing an increase of \$37,809 compared to the balance \$507,509 as at the year ended September 30, 2015.

Cash provided by operating activities for the three months ended December 31, 2015 was \$140,059, up 17% or \$20,559 compared to the cash provided by operations of \$119,500 for the first quarter fiscal 2015. The increase was driven by the higher cash provided from the non-cash working capital item, primarily from the accounts receivable collection. The increase was partially offset by the higher operating loss resulting from the lower sales and higher operating expenses.

During the three months ended December 31, 2015, the cash used for the financing activities was \$111,638, which reflected the principal paid back towards two promissory notes. For the first quarter of last year, the Company had cash inflow of \$87,008 (US\$75,000) from the promissory note the Company

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issued on November 7, 2014 to one director to support working capital needs. For the cash outflow, the Company paid back principal of \$174,316 on the promissory note signed in November 2013.

Cash used by investing activities included the expenditures on property and equipment and intangible assets, which included product development, patents and intellectual property rights in the ordinary course of business. During the quarter ended December 31, 2015, cash flows used in investing activities remained flat with \$5,698 used last year and the amount of \$6,675 was paid for office equipment and patents.

Working Capital

As at December 31, 2015, the Company had a working capital deficiency of \$753,526, increased by \$370,189 compared with the deficiency of \$383,337 as at September 30, 2015. The increased deficiency is mainly attributed to lower accounts receivable as at December 31, 2015 resultant from the lower sales this quarter, partially offset by the reduction of the short term loan. During this quarter, the Company entered into a debt settlement agreement with MDR to settle the debt and partial trade payable totalling \$138,258 (US\$103,782). The Company issued 2,765,167 units at a price of \$0.05 per unit. Each unit is comprised of one common shares of the Company and one-fifth of a common share purchase warrant. Each warrant entitles the holder to purchase one common share of the Company at a price of \$0.05. The warrants have one year term and will expire on November 2, 2017.

The following is an analysis of the contractual maturities of the Company's financial liabilities as at December 31, 2015:

	Due by period						
	Total	<1 year	1-2 year	2-3 year	3-4 year	4-5 year	>5 year
Trade payables and accrued liabilities	\$ 1,880,163	\$ 1,880,163	\$ -	\$ -	\$ -	\$ -	\$ -
Loans payable	503,302	503,302	-	-	-	-	-
Convertible debentures	484,649	484,649	-	-	-	-	-
Operating lease	16,184	16,184	-	-	-	-	-
	\$ 2,884,298	\$ 2,884,298	\$ -	\$ -	\$ -	\$ -	\$ -

The Company expects to decrease its capital requirements on product development in the short-term now that FASTR re-launch project has been completed and FASTTactical development is substantially completed. Additional new products have also been under development in the past year. Moreover, cash flow needs for regular operations are expected to remain stable after the operating expense cuts have been put in place, subject to new sales/marketing initiatives planned.

This MD&A and the condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards applicable to a going concern, which assumes that the Company will be able to meet its obligations and continue its operations for the next twelve months. The Company's ability to continue as a going concern is dependent upon its ability to achieve future profitable operations and to obtain the necessary financing to meet its obligations and repay its liabilities arising from normal business operations when they become due.

6. COMMITMENTS

The Company originally signed a one-year operating lease on its Richmond office starting from August 1, 2012 which expired on July 31, 2014. The Company was required to pay base rent of \$1,975 per month.

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This lease was renewed for two years commencing August 1, 2014 and expires on July 31, 2016. It requires the Company to pay monthly base rent of \$2,119 for the first year and \$2,312 for the second year. The Company is currently negotiating a renewal of the lease with the landlord.

7. 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.

Compensation of Key Management Personnel

Key management personnel are persons responsible for planning, directing and controlling the activities of the Company. The Company considers all directors and officers of the Company to be key management personnel. The compensation of key management for the three months ended December 31, 2015 and 2014 were as follows:

	Three Months Ended December 31, 2015	Three Months Ended December 31, 2014
Short-term employee benefits	\$ 156,087	\$ 127,260
Director fees	29,750	28,750
Share-based payments	6,576	3,145
	\$ 192,413	\$ 159,155

The short-term employee benefits included management fees of \$73,768 (three months ended December 31, 2014 - \$63,277) incurred to a director and a company controlled by an officer. As at December 31, 2015, \$7,180 (September 30, 2015 - \$6,947) was outstanding and reported under trade payables for the services rendered in December 31, 2015. In addition, annual accrued bonus of \$90,120 of fiscal 2015 for the Company's officers was partially paid out and the balance of \$67,284 was reported under accrued liabilities

On August 11, 2015, the Company entered into an agreement with certain directors to settle an aggregate amount of \$106,250 director fees owed. The Company issued 2,125,000 common shares in full (one common share for each \$0.05 of debt owed) and the shares issued are subject to a hold period that expired on December 12, 2015.

As at December 31, 2015, director fees of \$29,750 were outstanding and included in accrued liabilities (September 30, 2015 - Nil).

Short-term Loans and Shares for Debt Transactions

On February 26, 2014, the Company rolled over the remaining unpaid interest on the MDR loan in the total amount of \$69,965 (US\$52,428) into a new loan, which was accrued but not converted into common shares with the Shares for Debt Transaction closed on October 2, 2013. The loan carries interest of 11% per annum and was renewed every six months with the accrued interest rolled over to the principal. The principal increased to \$82,097 (US\$61,519) as at September 30, 2015. On November 2, 2015, the Company entered into a debt settlement agreement with MDR to settle the short-term loan and partial trade payable totalling \$138,256 (US\$103,782). The Company issued 2,765,167 units at a price of \$0.05 per unit. Each unit comprised of one common shares of the Company and one-fifth of a common share purchase warrant. Each warrant entitles the holder to purchase one common share of the Company at a

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price of \$0.05. The warrants have one year term and will expire on November 2, 2017 (Note 11 (a)). The interest accrued to date \$1,673 (US\$1,279) was paid out in November 2015

MDR and Excelera Corporation ("Excelera") are wholly-owned subsidiaries of Venuity Corporation. A director of the Company is the co-founder and Chief Executive Officer of Venuity Corporation, and owns 80% of the shares of Venuity Corporation. Following the completion of the Shares for Debt Transactions, MDR now owns and controls 2,765,167 common shares of the Company, being approximately 9.71% of the 28,477,663 common shares of the Company currently issued and outstanding. MDR and Excelera together own 12,410,247 common shares, 43.58% of the total issued and outstanding common shares of the Company.

Warehouse Service Agreement

On December 24, 2012, the Company entered into a one year service agreement with MDR effective January 1, 2013. Pursuant to the agreement, MDR agrees to provide third party warehouse service for the Company at MDR's warehouse facility in Virginia, USA. The standard service fee is US\$5,000 per quarter. Since then, the agreement was renewed on an annual basis and the quarterly service fee increased to US\$6,500 effective January 1, 2016. During the first quarter fiscal 2016, service fee of \$6,673 (US\$5,000) (three months ended December 31, 2014 - \$5,801 (US\$5,000)) was incurred and the amount of \$3,460 (US\$2,500) was outstanding as at December 31, 2015. In addition, an amount of \$21,002 (US\$15,175) (September 30, 2015 - \$39,592 (US\$29,668)) was owed to MDR for the pass-through shipping cost advanced by MDR to the couriers.

8. OFF BALANCE SHEET ARRANGEMENTS

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

9. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

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.

Research and Development Costs

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

based on the sales volume projection for the estimated remaining useful life of the product. During fiscal 2011, the Company changed the amortization method to straight line to better reflect the pattern of realization of the future economic benefits.

The unamortized deferred product development costs are reviewed annually and should the review indicate that the basis of amortization requires modification, the change will be applied prospectively.

Patents

Patents are recorded at cost and comprised of costs associated with preparing, filing and obtaining patents. Technology license costs are recorded at the fair value of consideration paid.

Patents are amortized using the straight-line method over 10 years. The amounts shown for patents do not necessarily reflect present or future values and the ultimate amount recoverable will be dependent upon the successful development and commercialization of products based on these rights. If management determines that such costs exceed estimated net recoverable value based on future cash flows, the excess of such costs is charged to operations. Pyng continues to submit new applications for intellectual property rights, particularly new patents.

Intellectual Property Rights

All the costs incurred to acquire patents, trademarks, and other intellectual and industrial property rights related to FAST1®, FASTResponder™, FASTCombat™, T-POD®, T-PODCombat™, T-PODResponder™, MAT®, E-MAT®, MATCombat™, MATResponder™, MATResponder Elite™, FASTINFO and CRIC™ have been capitalized. During fiscal 2011, the Company changed the estimated useful life of these intellectual property rights from indefinite to 15 years based on the current market demand and other economic factors.

Property and Equipment

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

Assets	Annual Rate	Basis
Furniture and office equipment	20%	Declining balance
Medical equipment	20%	Declining balance
Computer equipment	30%	Declining balance
Leasehold improvements	30%	Straight-line
Software	100%	Straight-line

Impairment of long-lived assets

On an annual basis and when impairment indicators arise, the Company evaluates the future recoverability of its long-lived assets, including deferred product development costs, property and equipment, website development costs, patents and intellectual property rights. If the changes in circumstances indicate that the carrying amount of an asset may not be recoverable, future cash flows expected to result from the use of the asset and its disposition must be estimated. The recoverable amount is the higher of the fair value less cost to sell and the value in use. In assessing value in use, the estimated future cash flow are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the assets. An impairment loss is recognized in net loss if carrying amount of an asset or its cash-generating unit exceed its estimated recoverable amount.

Stock-based Payments

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

Income taxes

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

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

10. CHANGES IN ACCOUNTING POLICIES

The International Accounting Standards Board ("IASB") or the IFRS Interpretations Committee continuously issue certain new standards and interpretations. The following new and revised standards issued by the IASB were adopted by the Company on October 1, 2014, and have no impact on the Company's results of operations and financial position.

Amendments to IAS 19 Defined Benefit Plans

The amendments to IAS 19 apply to contributions from employees or third parties to defined benefit plans. The objective of the amendments is to simplify the accounting requirements for contributions from employees (or third parties) to defined benefit plans. It requires an entity to take account of contribution from employees or third parties when accounting for defined benefit plans. Contributions that are linked to service are required to be accounted for as a reduction of service cost

IFRIC 21 Levies

IFRIC 21 sets out guidance on when to recognize a liability for a levy imposed by a government, both for levies that are accounted for in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and those where the time and amount of the levy is certain. IFRIC 21 identifies the obligating event for the recognition of a liability as the activity that triggers the payment of the levy in accordance with the relevant legislation

IFRS 7 Financial Instruments – Asset and Liability Offsetting

The IASB issued amendments to IFRS 7, “Financial Instruments: Disclosure”, which clarify the requirements for offsetting financial instruments to help investors and other financial statements users to better assess the effect of offsetting arrangements on a company’s financial position. It requires companies to identify and disclose not only the financial assets and liabilities that have been offset in the statement of financial position but also those assets and liabilities that would be offset if future events were to arise

11. FINANCIAL INSTRUMENTS AND RISKS

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

The fair value of the Company’s cash, accounts receivable, other receivables, trade payables, accrued liabilities and short-term loan approximate the carrying amounts due to their short-term nature. The fair value of the liability component of the convertible debenture was estimated by discounting future cash flow at the current market interest rates for agreements covering similar investments. Based on the quoted interest rates for borrowings of companies of similar level risk, in management’s estimation, the carrying value of the liability component of the convertible debenture approximates fair value.

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, limits on the amount of credit extended as deemed necessary. 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 40% of revenues for the three months ended December 31, 2015 (three months ended December 31,2014 - 68%). 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.

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(Expressed in Canadian Dollars)

Foreign Exchange Risk

The Company uses the Canadian dollar as its reporting currency for these consolidated financial statements. The Company's revenues are dominated primarily in U.S. dollars, giving rise to the exposure to market risks from changes in foreign exchange rates. The Company is exposed to foreign currency fluctuation on its cash, accounts receivable, accounts payable, accrued liabilities as well as certain operating expenses and its other long-term liabilities. If the Canadian dollar appreciated one percent against U.S. dollar, with all other variables remain constant, the net loss would have been decreased by approximately \$8,781 (three months ended December 31, 2014 -\$11,247). If the Canadian dollar depreciated one percent against US dollar, there would be an equal and opposite impact on the net income.

During first quarter fiscal 2016, the Company entered into foreign currency forward contracts to protect itself against foreign exchange rate fluctuations. The forward foreign exchange contracts primarily require the Company to sell U.S. dollars for Canadian dollars at contractual rates. The Company's objective is to manage and control exposures and secure the Company's profitability on existing sales and anticipated future cash flows. The Company does not utilize derivative instruments for trading or speculative purposes.

The forward foreign exchange contracts primarily require the Company to sell U.S. dollars for Canadian dollars at contractual rates. As at December 31, 2015, all the forward contracts the Company entered into were settled.

Liquidity Risk

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

The Company controls liquidity risk by management of working capital, cash flow and availability of borrowing facilities. The Company has a planning and budgeting process in place to manage the funds required to ensure the Company has the appropriate liquidity to meet its operating and growth objectives. The Company has been actively pursuing new financing to meet its working capital needs and reduce the liquidity risk. Management hopes to secure the necessary working capital financing through issuance of new equity or debt and to fulfill debt obligations.

Interest Rate Risk

The loan payable and convertible debentures are subject to interest rate cash flow risk as the required cash flow to service the debt will fluctuate with the changing prime interest rate. The Company has estimated that one percent increase or decrease in the prime rate would have caused a net income decrease or increase by approximately \$1,336 (three months ended December 31, 2014 -\$1,325).

12. 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:

- Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;
- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP and that the Company's receipts and expenditures are made in accordance with authorization of management or the Company's directors as appropriate;
- 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.

13. OUTSTANDING SHARE DATA

Share Capital

The Company has 100,000,000 authorized common shares without par value. As at February 22, 2016, there are 28,477,663 common shares issued and outstanding.

	Number of Shares	Amount	Reserves
Balance, September 30, 2015	25,712,496	9,270,306	960,745
Fair value of options issued			8,063
Shares issued to settle MDR debt	2,765,167	138,256	-
Shares issue costs		(9,352)	-
Balance, February 22, 2015	28,477,663	9,399,210	968,808

On August 11, 2015, the Company entered into an agreement with certain directors to settle an aggregate amount of \$106,250 director fees owed. The Company issued 2,125,000 common shares in full (one common share for each \$0.05 of debt owed) and the shares issued were subject to a hold period expired on December 12, 2015.

On November 2, 2015, the Company entered a debt settlement agreement with MDR to settle a debt and partial trade payable totalling \$138,258 (US\$103,782). The Company issued 2,765,167 units at a price of \$0.05 per unit (Note 11 (a)). Each unit is comprised of one common share and one-fifth of a common share purchase warrant of the Company. Each warrant entitles the holder thereof to purchase, in accordance with the terms of the warrant, one common share and has an exercise price of \$0.05 per common share and a term of one year.

Stock Options

The Company has a rolling stock option plan, which follows the policies of the TSX Venture Exchange ("TSXV") regarding stock option awards granted to employees, directors and consultants. The stock option plan allows a maximum of 10% of the issued shares to be reserved for issuance under the plan. The

PYNG MEDICAL CORPORATION*Management's Discussion and Analysis**For the Three Months Ended December 31, 2015 and 2014**(Expressed in Canadian Dollars)*

Company's stock options vest as follows: 1/3 six months after the date of grant, 1/3 twelve months after the date of grant, and 1/3 eighteen months after the date of grant.

On January 21, 2014, the Company granted 150,000 options and on July 1, 2014, 150,000 options to purchase common shares of the Company to directors in accordance with the Company's stock option plan. The options expire four years from the date of grant and have an exercise price of \$0.06 and \$0.065 per common share respectively. One-third of the options granted vest every six months for a period of 18 months.

On April 22 and May 26, 2015, the Company granted options of 310,000 and 338,000 respectively to directors, officers and an advisory board member with the exercise price \$0.05 per share to purchase common shares in accordance with the Company's stock option plan. The options vested immediately and expire four years from the date of grant.

On July 1 and September 30, 2015, the Company granted options of 315,000 and 165,000 respectively to directors, officers, and an Advisory Board Member of the Company with the exercise price \$0.06 per share to purchase common shares in accordance with the Company's stock option plan. The options vested immediately and expire four years from the date of grant.

On October 19 and December 31, 2015, the Company granted 54,000 and 180,000 options respectively to advisory board members and directors & officers with an exercise price of \$0.05 to purchase common shares in accordance with the Company's stock option plan. The options vested immediately and expire four years from the dates of grant.

As at February 22, 2016, a total of 2,242,000 (September 30, 2015 – 2,008,000) stock options have been granted out of the 2,847,766 (September 30, 2015 – 2,571,250) pool under this plan, with the balance of 605,766 (September 30, 2015 – 563,250) stock options available to grant.

As at February 22, 2016, the following stock options were outstanding:

Options Outstanding			Options Exercisable	
Number of Options	Exercise Price	Expiring Date	Number of Options	
450,000	\$ 0.10	22-Aug-16	450,000	
130,000	\$ 0.10	1-Jul-17	130,000	
150,000	\$ 0.06	21-Jan-18	150,000	
150,000	\$ 0.07	1-Jul-18	150,000	
310,000	\$ 0.05	22-Apr-19	310,000	
338,000	\$ 0.05	26-May-19	338,000	
315,000	\$ 0.05	1-Jul-19	315,000	
165,000	\$ 0.06	30-Sep-19	165,000	
54,000	\$ 0.05	19-Oct-19	54,000	
180,000	\$ 0.05	31-Dec-19	180,000	
2,242,000			2,242,000	

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Warrants

During the first quarter fiscal 2016, the Company issued warrants 553,033 pursuant to the debt settlement agreement signed on November 2, 2015. The Company issued 2,765,167 units at a price of \$0.05 per unit to settle a short term loan and partial trade payable totalling \$138,258 (US\$103,782). Each unit is comprised of one common share and one-fifth of a common share purchase warrant of the Company. Each warrant entitles the holder thereof to purchase, in accordance with the terms of the warrant, one common share and has an exercise price of \$0.05 per common share and a term of one year.

As at February 22, 2016, the following warrants were outstanding:

Number of Warrants	Exercise Price	Expiring Date
1,455,625	\$ 0.113	19-Jul-16
10,600,000	\$ 0.050	8-Aug-16
553,033	\$ 0.050	2-Nov-16
12,608,658		

14. ECONOMIC DEPENDANCE

The Company presently derives a substantial amount of its revenue from one distributor which contributed approximately 40% (three months ended December 31, 2014 - 68%) of sales for the three months ended December 31, 2015. 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 20% (September 30, 2015 - 14%) of the accounts receivable balance as at December 31, 2015.

15. 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