

PYNG MEDICAL CORP.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Years Ended September 30, 2016 and 2015

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, 2016 and the related notes therein. The effective date of this report is January 10, 2017. 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. 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

During the second quarter of fiscal 2016, the Company launched FASTTactical™, a new Sternal Intraosseous (IO) Infusion Device designed for civilian Emergency Medical Service (EMS), hospital critical care teams and military. FASTTactical™ is Pyng's first Sternal IO device to feature compact rigid tube package that protect the device while keeping it sterile. The smaller footprint also enable the device to much more easily fit into combat and civilian medical bags than alternative IO devices.

4. SELECTED ANNUAL INFORMATION

		2016		2015		2014
Total sales	\$	5,291,215	\$	8,014,421	\$	5,277,397
Net income (loss) after tax		(1,222,086)		5,967		(796,438)
Earning (loss) per share		(0.04)		0.00		(0.03)
Total assets		6,068,691		6,812,937		6,203,455
Total long-term liabilities		-		-		-
Cash dividend declared		Nil		Nil		Nil

5. RESULTS OF OPERATIONS

Revenues

The Company reported total sales of \$5,291,215 for fiscal 2016, down \$2,723,206 or 34% from \$8,014,421 reported for fiscal 2015. The sales decrease was primarily attributed to the sales decline of the

Sternal IO products from the military market segment. The sales decrease was partially offset by the increased sales from the civilian market via the Company's trauma products (TPOD and MAT). The military orders started to rebound in the fourth quarter and the Company has seen increasing backorder position at the year end.

Gross Margin

Gross margin for the year ended September 30, 2016 was \$2,492,745, a decrease of \$1,180,190 compared to \$3,672,935 reported a year ago, which resulted from the lower gross sales this year. Gross margin as a percentage of sales increased to 47% this year from 46% reported last year, driven by cost reduction related to the trauma products and increased sales of the higher margin products.

Expenses

Total operating expenses for the year ended September 30, 2016 were \$3,714,831, up \$47,863 or 1% from \$3,666,968 reported in fiscal 2015. The increased expenses are primarily attributed to higher sales, marketing, and product development expenses, partially offset by lower interest, other finance costs, general and administrative, and amortization expenses. The increased expenses were further offset by the foreign exchange gain which resulted from the favourable exchange rate movement this year.

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 year ended September 30, 2016, research and product development expenses increased 52% to \$214,656 as compared to \$141,057 for last year. The increase was mainly attributed to the higher product development and related legal expenses incurred this year.

General and administrative expenses for the year ended September 30, 2016 were \$1,546,158, down \$41,515 or 3% compared to \$1,587,673 reported for fiscal 2015. The decreased expenses were primarily attributable to the lower bonus accrued based on the lower revenues and operating results this year, partially offset by the higher legal, consulting, director fees and travel expenses.

Sales and marketing expenses for the year ended September 30, 2016 was \$1,414,524, an increase of \$398,175 or 39% compared to \$1,016,349 reported a year ago. This increase reflected the Company's continuous efforts to expand the market awareness and customer base. Higher expenses were incurred for most of the categories but the major contributors included payroll and benefits, warehouse and shipping costs, advertising, conferences & expositions, travel expenses, and marketing samples.

Amortization of property and equipment for the year ended September 30, 2016 was \$15,462, down 17% from \$18,715 for fiscal 2015 due to the overall reduced carrying value this year compared to the carrying value of last year.

Amortization of intangible assets for the year ended September 30, 2016 was \$343,648, which was slightly lower than \$346,378 for fiscal 2015, due to the lower amortization on patents recorded this year. Total interest expenses of \$124,300 were reported for fiscal 2016, down 32% or \$58,493 compared to \$182,793 reported for fiscal 2015. The decrease was driven by the lower principal balance of two promissory notes this year and absence of one short term loan which was settled by a share issuance in November, 2015.

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Other finance costs included amortization of deferred financing costs and accretion of interest on convertible debt which was amended in fiscal 2015. For the year ended September 30, 2016, other finance costs decreased to \$64,785, as compared to \$100,742 reported for fiscal 2015. This decrease was mainly attributable to 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. Foreign exchange gain of \$18,387 was recorded for the year ended September 30, 2016, as compared to foreign exchange loss of \$266,201 reported a year ago. This gain reflected the favourable currency movement on the U.S. dollar denominated net liability position.

Net Loss and Comprehensive Loss

The Company recorded a total loss of \$1,222,086 for the year ended September 30, 2016, as compared to a net income of \$5,967 reported for fiscal 2015. The increased loss was mainly attributed to the lower gross margin due to the lower sales from the military market. In addition, the higher sales, marketing and product development expenses further expanded the losses.

6. SUMMARY OF QUARTERLY RESULTS

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

	Sep. 30 2016 Q4	Jun. 30 2016 Q3	Mar. 31 2016 Q2	Dec. 31 2015 Q1	Sep. 31 2015 Q4	Jun. 30 2015 Q3	Mar. 31 2015 Q2	Dec.31 2015 Q1
Total sales	\$ 1,514,637	\$ 1,336,501	\$ 1,218,080	\$ 1,221,998	\$ 2,875,046	\$ 1,974,772	\$ 1,650,528	\$ 1,514,075
Gross margin	731,412	616,896	594,020	550,418	1,265,545	895,100	848,637	663,653
Expenses	804,165	916,491	912,793	1,081,381	1,006,555	873,017	1,014,701	772,695
Net income (loss)	(72,755)	(299,595)	(318,773)	(530,963)	258,991	22,082	(166,064)	(109,042)
Earning (loss) per share	\$ (0.00)	\$ (0.01)	\$ (0.01)	\$ (0.02)	\$ 0.01	\$ 0.00	\$ (0.01)	\$ (0.00)

7. FOURTH QUARTER RESULTS

The Company recorded total sales of \$1,514,637 for the fourth quarter of fiscal 2016, down \$1,360,409 or 47% from \$2,875,046 reported for the fourth quarter of fiscal 2015. Gross Margin decreased from \$1,265,545 to \$731,412 as a result of lower sales this year. Expenses for the fourth quarter ended September 30, 2016 decreased to \$804,165 from \$1,006,555 reported a year ago. As a result, the Company reported a net loss of \$72,755 for the fourth quarter of fiscal 2016, as compared to net income of \$258,991 reported for the fourth quarter of fiscal 2015.

8. 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.

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Cash Position

As at September 30, 2016, the Company had cash of \$318,864, down \$188,645 or 37% compared to the balance \$507,509 as at the year ended September 30, 2015.

Cash provided by operating activities for the year ended September 30, 2016 was \$435,459, down \$279,763 compared to the cash provided of \$715,222 for fiscal 2015. The decrease was attributable to the net loss this year which resulted from the lower sales and higher operating expenses, and partially offset by the higher cash provided from the non-cash working capital items.

During fiscal 2016, the cash used for the financing activities increased 78% to \$614,941 from \$344,741 reported for fiscal 2015. This reflected the increased principal repayments this year towards two promissory notes. In fiscal 2015, the Company had cash inflow of \$87,008 (US\$75,000) from the promissory note the Company issued on November 7, 2014 to one director to support working capital needs. This note was fully paid out by the end of June 2016.

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. For the year ended September 30, 2016, the total cash used in investing activities was \$11,146, down \$50,900 from \$62,046 used in fiscal 2015.

Working Capital

As at September 30, 2016, the Company had a working capital deficiency of \$1,266,629, an increase of \$883,292 compared with the deficiency of \$383,337 as at September 30, 2015. The increased deficiency is mainly attributed to lower accounts receivable and higher accounts payable as at September 30, 2016 resultant from the lower sales this year, partially offset by the reduction of the short term loan. During the first quarter this year, the Company entered into a debt settlement agreement with MDR, its US based warehouse and shipping service provider to settle the debt 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 is comprised of one common share 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 had one year term and expired on November 2, 2016.

The following is an analysis of the contractual maturities of the Company's financial liabilities as at September 30, 2016:

	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	\$ 2,856,097	\$ 2,856,097	\$ -	\$ -	\$ -	\$ -	\$ -
Convertible debentures	530,000	530,000	-	-	-	-	-
Operating lease	46,240	28,804	17,436	-	-	-	-
	\$ 3,432,337	\$ 3,414,901	\$ 17,436	\$ -	\$ -	\$ -	\$ -

The Company expects to decrease its capital requirements on product development in the short-term now that FASTTactical development is 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 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.

9. 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. This lease was renewed for two years commencing August 1, 2014 and expired on October 31, 2016. It required the Company to pay monthly base rent of \$2,119 for the first year and \$2,312 for the second year. On June 22, 2016, the lease was renewed for eighteen months which will expire on April 30, 2018. The minimum rental for the first twelve months is \$2,408 and will increase to \$2,505 for the remaining six months.

10. 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 years ended September 30, 2016 and 2015 were as follows:

	2016		2015	
Short-term employee benefits	\$	584,615	\$	643,667
Director fees		145,000		119,000
Share-based payments		16,329		41,354
	\$	745,944	\$	804,021

The short-term employee benefits included management fees of \$260,939 (2015 - \$243,228) incurred to both a director and a company controlled by an officer. As at September 30, 2016, \$5,116 (2015 - \$6,947) was outstanding and reported under trade payables for the services rendered in September 2016. In addition, annual accrued bonus of \$4,919 (2015 - \$87,398) for a Company officer 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 were subject to a hold period that expired on December 12, 2015.

As at September 30, 2016, director fees of \$145,000 for fiscal 2016 were outstanding and included in accrued liabilities (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 price of \$0.05. The warrants have one year term and expired on November 2, 2016 (Note 12 (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 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 fiscal 2016, service fee of \$32,506 (US\$24,500) (2015 - \$24,654 (US\$20,000)) were incurred and the amount of \$1,968 (US\$1,500) was outstanding as at September 30, 2016. In addition, an amount of \$5,636 (US\$4,296) (September 30, 2015 - \$39,592 (US\$29,668)) was owed to MDR for the pass-through shipping cost advanced by MDR to the couriers.

Promissory Note

On November 7, 2014, the Company issued a promissory note to one director with principal of US\$75,000. The note carried interest of 11% per annum, was unsecured and had no equity component attached. The note had a term of fifteen months and was required to be fully paid back by January 31, 2016. Pursuant to the note, only interest payment was paid by the Company for the first three months. For the remaining twelve months, the blended monthly payment was being made by the end of each month, which include principal of US\$6,250 and interest calculated for each month. On December 4, 2015, the Company reached an agreement with the holder to defer the last two monthly payments to the end of June 2016. On June 28, 2016, the note was fully paid out with the principal balance \$16,146 (US\$12,500) and interest accrued to date of \$1,036 (US\$802).

11. OFF BALANCE SHEET ARRANGEMENTS

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

12. 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.

13. 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, 2015, and have no impact on the Company’s results of operations and financial position.

Amendments to IAS1 Presentation of Financial Statements

The amendments are designed to encourage companies to apply professional judgement to determine what information to disclose in the financial statements. In addition, the amendments clarify that companies should use professional judgement in determining where and in what order information is presented in the financial disclosures.

14. 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 34% of revenues

(2015 - 52%). The sales are made to the distributor under a distributorship agreement. The non-renewal or cancellation of the contract could have a material adverse short-term impact on the Company.

Foreign Exchange Risk

The Company uses the Canadian dollar as its reporting currency for these consolidated financial statements. The Company's revenues are dominated primarily in U.S. dollars, giving rise to the exposure to market risks from changes in foreign exchange rates. The Company is exposed to foreign currency fluctuation on its cash, accounts receivable, accounts payable, accrued liabilities as well as certain operating expenses and its other long-term liabilities. If the Canadian dollar appreciated one percent against U.S. dollar, with all other variables remain constant, the net loss would have been decreased by approximately \$13,395 (2015 – net income increased by \$6,404). If the Canadian dollar depreciated one percent against US dollar, there would be an equal and opposite impact on the net loss.

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 \$5,300 (2015 –\$5,300).

15. 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.

16. OUTSTANDING SHARE DATA

Share Capital

The Company has 100,000,000 authorized common shares without par value. As at January 10, 2017, 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			16,329
Equity portion of convertible debt			32,021
Shares issued to settle MDR debt	2,765,167	138,256	-
Shares issue costs		(9,352)	-
Balance, January 10, 2017	28,477,663	9,399,210	1,009,095

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 which 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 \$138,256 (US\$103,782). The Company issued 2,765,167 units at a price of \$0.05 per unit (Note 12 (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 Company's stock options normally 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, unless immediate vesting is approved by the Board.

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.

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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, December 31, 2015, March 31, 2016 and October 19, 2016, the Company granted 54,000, 180,000, 180,000, and 500,000 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 January 10, 2017, a total of 2,472,000 (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 375,766 (September 30, 2015 – 563,250) stock options available to grant.

As at January 10, 2017, the following stock options were outstanding:

Options Outstanding			Options Exercisable	
Number of Options	Exercise Price	Expiring Date	Number of Options	
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	
180,000	\$ 0.05	31-Mar-20	180,000	
500,000	\$ 0.05	19-Oct-20	500,000	
2,472,000			2,472,000	

Warrants

On November 2, 2015, the Company entered 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 entitled the holder to purchase one common share of the Company at a price of \$0.05. The warrants had one year term and expired on November 2, 2016 (Note 12 (a)).

On October 25, 2016, the Company completed amendments to the terms of previously issued secured convertible note in the aggregate principal amount of \$530,000 which included amendments to the terms of 10,600,000 of previously issued warrants with an exercise price of \$0.05 per warrant in conjunction with the convertible notes. The maturity date was extended from Oct 25, 2016 to April 15, 2018.

As at January 10, 2017, the following warrants were outstanding:

Number of Warrants	Exercise Price	Expiring Date
10,600,000	\$ 0.05	15-Apr-18
10,600,000		

17. ECONOMIC DEPENDANCE

The Company presently derives a substantial amount of its revenue from one distributor which contributed approximately 34% (2015 - 52%) of sales for fiscal 2016. 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 43% (September 30, 2015 -14%) of the accounts receivable balance as at September 30, 2016.

18. SUBSEQUENT EVENTS

- a) On October 19, 2016, the Company granted 500,000 options to certain advisory board members in accordance with the Company's stock option plan with an exercise price of \$0.05 per common share. The options vested immediately and expire four years from the date of grant.
- b) On October 25, 2016, the Company completed amendments to the terms of certain previously issued secured convertible notes in the aggregate principal amount of \$530,000 and amendments to the terms of 10,600,000 previously issued warrants with an exercise price of \$0.05 per warrant. The Company previously amended the maturity date of the 2015 Notes and the expiry date of the 2015 Warrants from August 8, 2016 to October 25, 2016 (Note 13). The maturity date of the convertible note and warrants was subsequently extended to April 15, 2018 and interest rate increased to 18% per annum. Pursuant to the amendments, the Company agrees to pay a penalty for the late interest payment of 18%-20% per annum based on the number of days past due and paid upon subscriber's request. The penalty for the late principal payment on the maturity date is 20% of the principal outstanding. In addition, the Company agrees to pay a bonus to all subscribers additional amounts as follows upon the maturity date:
 - i. The sum of \$72,300 if the Company has timely paid subscribers when interest and principal are due,
 - ii. The sum of \$120,500 if the Company hasn't timely paid when the interest and principal are due,
 - iii. In the event the Company enters into an agreement to sell all or substantially all of its assets, or sell or transfer a controlling interest, the Company shall pay all subscribers:
 - The sum of \$72,300 if the agreement is entered into within 12 months of August 30, 2016.
 - The sum of \$120,500 if the agreement is entered into between 12 and 24 months of August 30, 2016.
 - The sum of \$241,000 if the agreement is entered into after 24 months from August 30, 2016.

All amounts owing by the Company to all subscriber under section (i) and (ii) are due and payable upon the earlier of the maturity date or April 15, 2018 and the date of the closing of an acquisition. All amounts owing under section (iii) are due and payable upon acquisition date.

c) On October 25, 2016, the Company amended the terms of the previously issued secured note owing to its largest manufacturer in USA, to provide repayment for certain outstanding invoices and interest expenses in the total amount of US\$1,100,000 (Note 12 (c)). The interest rate increased to 18% annum effective October 1, 2016, and is payable in blended monthly principal and interest payments up to and including September 30, 2018. Minimum monthly payments, which include principal and interest, are required to be paid on the last day of each month as follows:

- October 2016 – December 2016 - US\$10,000 per month.
- January 2017 – March 2017 - US\$20,000 per month.
- April 2017 – September 2017 - US\$30,000 per month.
- October 2017 – March 2018 - US\$50,000 per month.
- April 2018 – August 2018 - US\$60,000 per month.
- September 30, 2018 – A balloon payment of all remaining principal and interest, if not paid earlier, will be due and payable.

As part of the note, the Company agrees to pay all the accounts payable with the note holder within 45 days from the date of the invoice. Late payment fee of 18% per annum will be assessed for any amount owing between 46 – 60 days and increased to 20% per annum for the amount owing more than 60 days.

Pursuant to the amendments, the Company also agrees to pay the additional amounts as follows:

- i. The sum of US\$150,000 on maturity if the Company has timely paid all payments due under this amendment and has paid within 45 days of the invoice date.
- ii. The sum of US\$250,000 on maturity if the Company has not timely paid all payments due under this amendment or has not paid within 75 days of the invoice date all invoices and late payment due under the Amendment.
- iii. In the event the Company enters into an agreement to sell all or substantially all of its assets, or sell or transfer a controlling interest, the Company agrees to pay note holder:
 - The sum of US\$150,000 if the agreement is entered into within 12 months of August 30, 2016.
 - The sum of US\$250,000 if the agreement is entered into between 12 and 24 months of August 30, 2016.
 - The sum of US\$500,000 if the agreement is entered into after 24 months from August 30, 2016.

All such amounts owing under (i) and (ii). above are due and payable by October 31, 2018. All such amounts owing under (iii) are due and payable by the acquisition date.

19. 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