

SCO Medallion Healthy Homes Ltd.

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

June 30, 2007 interim

**The following discussion (the "MD&A") of the financial condition and results of the operations of SCO Medallion Healthy Homes Ltd. ("SCO" or "the Company") constitutes management's review of the factors that affected the Company's financial and operating performance for the Quarter ended June 30, 2007. This discussion dated August 2007 should be read in conjunction with the Company's consolidated financial statements for year ended September 30, 2006 and related notes.**

**Further information regarding the Company and its operations are filed electronically on the System for Electronic Document Analysis and Retrieval (SEDAR) in Canada and can be obtained from [www.sedar.com](http://www.sedar.com).**

**Disclaimer**

This discussion and analysis contains forward-looking statements subject to various risk factors and uncertainties, which may cause the actual results, performances or achievements of SCO to be materially different from any future results, performances or achievements expressed or implied by such forward-looking statements. Such factors include, but are not limited to, fluctuations in the market for Indoor Purifications and related products and services, political and economic conditions, the Company's reliance upon certain key customers and distributors, the demand for products provided by SCO, industry competition and SCO's ability to attract and retain key personnel. Such statements reflect the Company's current views with respect to future events, and are based on information currently available to the Company and on hypotheses which it considers to be reasonable; however, management warns the reader that hypotheses relative to future events, several of which are beyond the control of management, could prove to be false, given that they are subject to certain risks and uncertainties.

**Description of Business**

The Issuer was incorporated on August 6, 1999 for the purposes of acquiring, marketing and testing a technology capable of purifying indoor air with a view to promoting healthier living environments at home and in the workplace. Utilizing a technology to produce nitric oxide free ozone (a highly active form of oxygen) and other mechanical devices the Issuer is able to test, clean and purify the air we breathe in our homes and at work from odors and other harmful germs and pollutants.

Air pollution is bad for human health - wherever it exists. But the biggest risks to health may actually come from the air indoors. Indoor air - the air inside our homes and offices - can contain many pollutants that are hazardous to health. In fact, research has shown that most people in industrialized nations spend about 90% of their time indoors and that the concentrations of many pollutants indoors exceed those outdoors by as much as 25 times and occasionally more than 100 times. According to the United States Environmental Protection Agency (the "EPA") in recent years comparative risk studies performed by the EPA and its Science Advisory Board have consistently ranked indoor air pollution among the top five environmental risks to public health. A high percentage of the population becomes sensitive to indoor allergens and suffers chronic or intermittent allergic disease. Most of the disease conditions can be classified as mild or moderate, but many are severe.

In addition, initial efforts by the EPA to assess the costs of indoor air pollution concluded that it was reasonable to estimate that the costs of indoor air pollution were in the tens of billion dollars per year with the major types of economic costs being direct medical costs for people whose health is affected by poor indoor air quality and who receive treatment, lost productivity from absence due to illness, decreased efficiency on the job, and materials and equipment damages due to exposure to indoor air pollutants.

According to the government affiliated Energy Efficiency and Renewable Energy Clearinghouse, as many as 30% of U.S. homes have a mold problem and experts estimate that between 13 million and 26 million

Americans may be allergic to molds, both indoor and outdoor. The catch phrase 'sick home syndrome' describes homes with poor, even hazardous, living environments. "Sick Home" symptoms often develop when a house loses its ability to exchange its polluted air for clean outside air. As a result, the house gets congested with internally produced pollutants.

Especially in very hot or cold weather when doors and windows are kept tightly closed, these pollutants can build up to intolerable levels. Common sources for these pollutants are damp carpets, furnace and air ducts, fireplaces, household cleaning products, pressed wood cabinets and cupboards and molds and mildew which grow wherever there is excess moisture, particularly in air conditioning systems. Some of these pollutants may be volatile organic compounds (VOCs) which consist of a range of chemicals that are released into the air from man made materials. Exposure to VOCs may be harmful and can cause headaches, dizziness, nausea, irritated eyes, throat and nose and fatigue and can be particularly bad for anybody with allergies or asthma.

The Issuer's testing and ozone based air purification system, which has been developed and refined by SCO over thousands of applications, is designed to "cure" sick homes and return them to a condition which is conducive to healthy living by eliminating noxious odors (including those of many dangerous chemicals), germs, viruses, bacteria, molds and funguses within the treated area.

The Medallion System is a methodology that tests/samples then in the majority of situations employs ozone to, according to management, purify indoor air in a safe yet effective manner that ensures that odors, germs, viruses and molds are eliminated or killed. After diagnosing the source of the problem (i.e., odor source, degassing building materials, mold, etc.) and sampling if required, the Issuer employs a treatment program depending upon the source or sources of the problem. All people, pets and plants are removed from the area to be treated and then a high level of nitric oxide free ozone is introduced via the Issuer's ozone generators. Sufficient time is allowed for the ozone to eliminate harmful pollutants and contaminants before the remaining ozone is evacuated from the treated area with the use of large fans. Once the treatment is complete, service technicians wearing appropriate safety equipment, test the air to ensure that the ozone level is at levels acceptable to Workers Compensation and Government Standards for safe re-habitation by people, pets and plants.

SCO manufactures the proprietary ozone generators and related ozone products as they believe their production of a high quality, nitric oxide free ozone on site is critical for the safe and effective use using the ambient air in any buildings they treat. Management is unaware of any other providers of this service and we are very proud of the quality of their equipment backed by a five year unconditional warranty (excluding the UV lamps).

### ***Marketing***

Master License Agreements will be utilized in other countries. Korea is the first Asian country to sign a Master License Agreement and a Manufacturing contract is in negotiations so the Medallion equipment is available in the appropriate electrical format for Asia.

We are now endeavoring to sell our machines to user groups such as the motel, hotel industry and automobile sales organizations, and auto detailers for example. It is totally impractical for franchises to come in and ozone a unit to remove smells, or what ever. We can make good margins on these for the company and the person doing the sales work. It is possible for a sales type person to sell 3 to 4 units a day in a city.

### **Overall Performance**

Gross sales for the year ended September 30<sup>th</sup>, 2006 were \$317,247 compared to \$204,939 for the year ended September 30<sup>th</sup>, 2005 representing an increase in revenues of \$112,308 or 55.0 %. Sales for the 9 months ended June 30, 2007 were a disappointment to all concerned as we anticipated much better with the first quarter up 14% over last year. Sales year to date are 51% of the previous year and most unsatisfactory.

While we have been working on Franchise fees we have not obtained any results in the last year which has been very disappointing. Our sales of equipment to Australia, and sales through a couple of sales agents to end users have helped. You can see our Gross Profit Margin has increased. Sales of equipment are a major part of the solution to our very serious financial problems.

The trend and attitude of people in general is in our favor. You continually read about problems with air in buildings, and serious concerns about mould. You may remember the newspaper articles about the Walter Reed Memorial Hospital's problems. High relative humidity now costs American home owners an estimated 3.2 Billion per annum. People are showing more concern and asking more questions.

In the North American market we now know what we must do, and that is sell equipment. With our lack of resources, we must be very careful in selecting our target markets.

If we in the very near future do not make serious increases in profitable sales the company will not be able to continue to operate.

### **Industry, Economic and Risk Factors affecting the Company's Performance**

The demand for the Medallion methodology, equipment and service is high in all countries, but the cost to get the information out, equipment approved, and studies and testing completed is considerable. Travel and representatives in all areas becomes very important which will lead to more expenses and the development of qualified consultants to represent Medallion successfully.

Industry standards for Indoor Environments are continually being discussed by governments and private enterprise, but anything conclusive appears to be years away. This creates a sales and marketing challenge and more information and study requirements to insure Medallions position in the Solution categories.

General economic conditions are excellent worldwide and inquiries from Asia, Australia and Europe arrive weekly. This part of the world has much more acceptance for the benefits of the safe use of ozone. In North America, there are a few companies that are giving ozone a bad name which is another marketing and information challenge. Medallions affiliations with first class labs, and industry organizations and associations has been very important, but at the same time, puts constant demands for appearances and presentations by Medallions executive to attend Symposiums and Workshops taking too much time away from the everyday running of the business.

Litigation may be necessary in the future to enforce the Company's intellectual property rights, to determine the validity and scope of the proprietary rights of others, or to defend against claims of infringement or invalidity. Such litigation could result in substantial costs and diversion of resources and could have a material adverse effect on the Company's business, operating results or financial condition.

The Company will, for at least the foreseeable future, require additional financing to maintain current operations, make further investments, respond to competitive pressures or take advantage of unanticipated opportunities. The ability of the Company to arrange such financing in the future will depend in part upon prevailing capital market conditions, as well as the business success of Medallion. If additional financing is raised by the issuance of shares from treasury, control of the Company may change and shareholders may suffer additional dilution.

## Objectives

In order to improve sales, management believes that it must expand its sales internationally. The current success of the Korea Master Franchise and the signing of a Manufacturing agreement with them assure the availability of Medallion equipment in Asia. Further expansion into China, Japan and Hong Kong is anticipated in the next years but this is going very slow.

We are attempting to cut all our costs to the bone without hurting our future potential. We are talking to a number of people who are interested in helping us market our product and hopefully this will be successful. We have had some success in Australia and this market continues to grow.

## Selected Annual Financial Information

In US Funds	Year Ended Sept. 30		
	2006 (\$)	2005 (\$)	2004(\$)
Revenues	317,247	204,939	883,490
Net Loss (before other income/expenses)	(321,020)	(1,019,278)	(226,984)
Net Loss (after other income/expenses)	(321,020)	(741,253)	(226,984)
Net Loss per Share – basic	(0.01)	(0.04)	(.088)
Net Loss Per Share – diluted	(0.01)	(0.04)	(.088)
Total Assets	192,944	190,717	278,876
Total Long Term Debt	273,278	137,822	0

## Results of Operations - Comparison of 2006 to 2005

The increase in sales of Ozone machines shows our shift in direction is having a positive effect and we are correcting the sales problem. A 15 % percent increase in gross margins also a very positive move.

At the same time cost of sales, on a percentage basis, decreased from 45.0% in 2005 to 35.0% in 2006 due to selling price increases and more direct sales to end users. As a result of the foregoing, gross profit for 2006 was \$206,646 compared to \$112,281 for 2005.

Overall expenses decreased by \$603,893 to \$527,666 in 2006 compared to \$1,131,559 in 2005. This reduction in expenses was due to managements recognition that costs had to be cut and that we had no money to spend.

If franchise fees in 2006 had been the same as they were in the 2005 year the company would be in a much better position. The cost to the company of franchises is about 40% of selling prices. The associated costs are lawyers, commissions, travel, and entertainment expenses.

**Summary of Quarterly Results****Selected Quarterly Financial Information**

Quarter / 3 months period	2007			2006				
	June 30	Mar 31	Dec 31	Sept 30	June 30	Mar 31	Dec 31	Sept 30
<b>Revenues</b>	89,936	4553	55,484	21,351	151,831	95,307	48,758	136,120
<b>Net Income (Loss) before other income/expenses</b>	(67,535)	(59,777)	(32,057)	(71,370)	(64,370)	(6,062)	(97,193)	(132,269)
<b>Net Income (Loss) after other income/expenses</b>	(67,535)	(59,777)	(32,057)	(153,396)	(64,370)	(6,062)	(97,193)	(132,269)
<b>Net Income (Loss) per share – basis</b>	(.0033)	(.0015)	(.0015)	(.0073)	(.0031)	(.0003)	(.0047)	(.0065)
<b>Net Income (Loss) per share – diluted</b>	(.0028)	(.0013)	(.0013)	(.0063)	(.0027)	(.0002)	(.0036)	(.0052)
<b>Shares Outstanding</b>	20963206	20,963,206	20,963,206	20,963,206	20,963,206	20,763,206	20,763,206	20,763,206
<b>Diluted Shares</b>	24,242,456	24,242,456	24,242,456	24,242,456	24,342,456	25,207,456	25,207,456	25,407,456

\* Note December is for the 3 months Oct., Nov. and Dec. of the prior year, as we have 4 quarters ending Sept. 30.

- (1) Sales must be increased, and expenses must be kept under control as they now are.
- (2) The 4 quarter of 2006 as compared to previous 8 quarters shows a number of significant things. Expenses are down by 46,853.00 or 39 % while sales have increased by 17 %. A loss of 32,057 for the quarter compared to a loss \$ 97,193 is a very significant improvement.
- (3) The company had a large amount of legal expenses associated with a franchise in the USA, and our year end expenses for auditors was included and had not been accrued sufficiently.
- (4) Sales for the quarter ended June 30, 2007 are much better then previous quarter but must increase.
- (5) We simply are unable to reduce expenses much further and must increase our sales to a level of \$100,000.00 per quarter. This must be through increase franchise and equipment sales. Franchise sales are going a 60% gross profit and equipment sales would produce about the same amount.
- (6) The company has no seasonality to its sales that I have found. The problems associated with a need for our equipment are not seasonal for the most part. Equipment purchases are long term endeavors for the most part.

**Financial Condition and Liquidity**

As at Sept. 30, 2006 the Company had a working capital deficit of \$1,971,345 compared to a working capital deficit of \$1,650,325 as at the September 2005 and a deficit of 909,072 at Sept. 30 2004. Subsequent to our financial year-end in the next 9 months our deficit increased again by another \$67,535 to \$2,117,053. This increased deficit is a direct result of the Company's insufficient sales during the first half of the year. We simply are having a very difficult time paying our bills at present. Our financial problems have continued from year end and we are it increasingly difficult to meet our obligations.

A number of bills have been paid by insiders, and the insiders have not been reimbursed by the company. We are operating on a hand to mouth basis. Increased profitable sales and therefore increased cash flow remains the only practical solution for the company.

While we continue to struggle forward, we have not incurred any financial obligations more than absolutely necessary.

### **Contractual Obligations**

Medallion has no major contractual obligations in the manufacturing sector. All supplies are based on quotes and conditions at the time of order. The only contractual obligations are in the advertising sector where we have arrangements with referral networks and magazines for our national ad campaigns. The costs for these are then spread over the franchise and licensees per their contractual obligations to Medallion.

Our future contracts will include distributors and rental companies who choose to represent the Medallion Industrial Systems in their areas. Franchise and Licensees are given first right of refusal for these distributorships which is another excellent opportunity for them to increase their income.

### **Transactions with Related Parties**

During 2006 a total of \$100,701 was paid to parties not at arm's length to the Company in respect of management, administration, directors' and consulting fees compared to \$461,036 in 2005. We have only paid out \$40,551 to related parties in the first 9 months of this year. We are not paying administration, directors or consulting fees at present. The only wages paid are direct work done.

### **Disclosure of Outstanding Share Data**

The authorized capital of the Company consists of 100,000,000 common shares without par value of which there were 20,763,206 common shares issued and outstanding as of June 30, 2007

### **Critical Accounting Estimates**

The financial statements referred to herein were prepared in accordance with generally accepted accounting principles and management has not made any assumptions regarding critical accounting estimates in the preparation of such financial statements.

### **Financial and Disclosure Controls and Procedures**

The company maintains accounting and internal control systems to provide reasonable assurance that its financial information and reporting is complete, reliable and accurate and that its assets are adequately protected. The board of directors, in conjunction with the audit committee, has an oversight role to ensure the integrity of the reporting information.

The company evaluated the effectiveness of its disclosure controls and procedures at the financial year end of September 30, 2006. Based on the results of this evaluation, the Company's Chief Executive Officer and Chief Financial officer concluded that the design and operation of the disclosure controls were effective and that its disclosure controls and procedures provided reasonable assurances:

- (1) that the material information relating to the company and its subsidiaries is made known to the company by others within those entities, particular during the period in which the annual filings are being prepared, and
- (2) Regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the Company's GAAP.

No change in the Company's internal control over financial reporting occurred during the Company's most recent interim period ( April 1, to June 30, 2007 ) that materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting.

There were no significant changes in accounting policies during 2006/07. The Canadian Company's accounting was done in Canadian Funds until September 30, 2005, and after that date we changed to doing

the accounting in US Funds. This was done to make quarterly and annual financial consolidations easier.

**Financial and Other Instruments**

See note 14 of the consolidated financial statements of the Company for the year ended Sept. 30, 2006 for details of the Company's use of financial instruments.

**ON BEHALF OF THE BOARD OF DIRECTORS**

(signed) *"Don Schmidt"*

Don Schmidt  
President

August 27, 2007  
Maple Ridge, BC.