

Consolidated Financial Statements
(unaudited)

Prism Medical Ltd.

February 29, 2008

First Quarter 2008 Financial Statements

Prism Medical Ltd.

CONSOLIDATED BALANCE SHEETS

(unaudited)

| | February 29 | November 30 |
|--|--------------------|--------------------|
| | 2008 | 2007 |
| <i>(stated in thousands of Canadian dollars)</i> | <i>\$</i> | <i>\$</i> |
| ASSETS | | |
| Current | | |
| Cash | 324 | 284 |
| Accounts receivable | 9,106 | 9,652 |
| Inventories | 10,786 | 9,686 |
| Prepaid expenses | 520 | 355 |
| Other receivables | 354 | 963 |
| Income taxes | 275 | 403 |
| Total current assets | 21,365 | 21,343 |
| Property, plant and equipment, net | 3,218 | 3,116 |
| Deferred charges, net | 838 | 833 |
| Goodwill | 16,401 | 16,107 |
| Intangible assets | 1,019 | 398 |
| Future income tax asset | 509 | 579 |
| | 43,350 | 42,376 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current | | |
| Bank indebtedness | 1,401 | 913 |
| Accounts payable and accrued liabilities | 6,473 | 7,279 |
| Income taxes payable | 194 | 247 |
| Current portion of long-term debt | 1,916 | 1,348 |
| Total current liabilities | 9,984 | 9,787 |
| Long-term debt | 17,524 | 16,725 |
| Future income tax liabilities | 831 | 588 |
| Total liabilities | 28,339 | 27,100 |
| Total shareholders' equity [note 3] | 15,011 | 15,276 |
| | 43,350 | 42,376 |

On behalf of the Board:

Director

Director

The accompanying notes are an integral part of these consolidated financial statements

First Quarter 2008 Financial Statements

Prism Medical Ltd.**CONSOLIDATED STATEMENTS OF INCOME**

(unaudited)

| | For the three months ended | |
|--|----------------------------|----------------------|
| | February 29, 2008 | February 28, 2007 |
| | \$ | \$ |
| <i>(stated in thousands of Canadian dollars, except per share amounts)</i> | | |
| Revenues | 10,812 | 10,131 |
| Cost of products and services sold | 6,607 | 6,298 |
| Gross profit | 4,205 | 3,833 |
| Expenses | | |
| Selling, general and administrative | 2,515 | 2,855 |
| Gain on foreign exchange | (203) | (54) |
| Stock based compensation | 14 | 29 |
| Amortization | 180 | 190 |
| Interest | 27 | 28 |
| Interest on long-term debt | 384 | 334 |
| Income before income taxes | 1,288 | 451 |
| Provision for income taxes | | |
| Current | 266 | 135 |
| Future | 126 | 111 |
| | 392 | 246 |
| Net income for the period | 896 | 205 |
| Earnings per share [note 3] | | |
| Basic | \$0.18 | \$0.03 |
| Diluted | \$0.14 | \$0.03 |

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

| | For the three months ended | |
|---|----------------------------|----------------------|
| | February 29, 2008 | February 28, 2007 |
| | \$ | \$ |
| <i>(stated in thousands of Canadian dollars)</i> | | |
| Retained earnings, beginning of period as previously reported | 7,896 | 7,683 |
| Transitional adjustment on adoption of new accounting policy | - | (637) |
| Retained earnings, beginning of period restated | 7,896 | 7,046 |
| Net income for the period | 896 | 205 |
| Premium on share buy-back | - | (54) |
| Retained earnings, end of the period | 8,792 | 7,197 |

The accompanying notes are an integral part of these consolidated financial statements

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Prism Medical Ltd.

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE
INCOME (LOSS)**

(unaudited)

| | For the three months ended | |
|---|-----------------------------------|------------------------------|
| | February 29, 2008 | February 28, 2007 |
| | \$ | \$ |
| <i>(stated in thousands of Canadian dollars)</i> | | |
| Net income for the period | 896 | 205 |
| Other comprehensive income | | |
| Net unrealized gain (loss) on translation of net investment in foreign operations | (1,175) | 599 |
| Comprehensive income (loss) for the period | (279) | 804 |

**CONSOLIDATED STATEMENTS OF
ACCUMULATED OTHER COMPREHENSIVE LOSS**

| | For the three months ended | |
|---|-----------------------------------|------------------------------|
| | February 29, 2008 | February 28, 2007 |
| | \$ | \$ |
| <i>(stated in thousands of Canadian dollars)</i> | | |
| Accumulated other comprehensive loss – beginning of period | (2,152) | (862) |
| Other comprehensive loss | | |
| Net unrealized gain (loss) on translation of net investment in foreign operations | (1,175) | 599 |
| Accumulated other comprehensive loss – end of period [note 3] | (3,327) | (263) |

The accompanying notes are an integral part of these consolidated financial statements

First Quarter 2008 Financial Statements

Prism Medical Ltd.**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(unaudited)

| | For the three months ended | |
|---|-----------------------------------|------------------------------|
| | February 29, 2008 | February 28, 2007 |
| <i>(stated in thousands of Canadian dollars)</i> | \$ | \$ |
| OPERATING ACTIVITIES | | |
| Income from continuing operations | 896 | 205 |
| Add items not affecting cash | | |
| Future income taxes | 99 | 111 |
| Amortization of property, plant and equipment, intangible assets and deferred product expenditures | 372 | 362 |
| Stock-based compensation | 14 | 29 |
| Interest accretion on convertible debt | 38 | 31 |
| | 1,419 | 738 |
| Net change in non-cash working capital balances related to operations <i>[note 5]</i> | (935) | (630) |
| Cash provided by (used in) operating activities | 484 | 108 |
| INVESTING ACTIVITIES | | |
| Deferred charges | (76) | (63) |
| Intangible assets | (3) | - |
| Purchase of property, plant and equipment | (469) | (223) |
| Acquisition of subsidiary <i>[note 2]</i> | (899) | - |
| Cash used in investing activities | (1,447) | (286) |
| FINANCING ACTIVITIES | | |
| Increase in bank indebtedness | 564 | 842 |
| Increase in long-term debt | 925 | - |
| Repayment of long-term debt | (326) | (635) |
| Cancellation of share capital <i>[note 6]</i> | - | (106) |
| Cash provided by financing activities | 1,163 | 101 |
| Effect of exchange rate changes on cash | (160) | 38 |
| Net increase (decrease) in cash during the period | 40 | (39) |
| Cash and cash equivalents, beginning of period | 284 | 550 |
| Cash and cash equivalents, end of period | 324 | 511 |
| Supplemental cash flow information | | |
| Interest paid | 572 | 575 |
| Income taxes paid | 309 | 131 |

The accompanying notes are an integral part of these consolidated financial statements

Prism Medical Ltd.

1. SIGNIFICANT ACCOUNTING POLICIES

The accompanying unaudited consolidated financial statements have been prepared by the Company in accordance with Canadian generally accepted accounting principles on a basis consistent with those followed in the most recent audited financial statements. These unaudited consolidated financial statements do not include all the information and footnotes required by generally accepted accounting principles for the annual financial statements and therefore should be read in conjunction with the audited consolidated annual financial statements and notes for the year ended November 30, 2007.

All dollar figures are expressed in thousands of Canadian dollars except for earnings per share or amounts stated with cents.

2. ACQUISITION

2008 Acquisition

Chalmers Homes Inc., d/b/a Patient Lifts of New England

On February 1, 2008, the Company acquired Chalmers Homes Inc., d/b/a Patient Lifts of New England ["PLNE"], a privately owned United States based distributor of moving and handling products for the mobility impaired. The purchase price was satisfied as follows:

| | |
|-------------------------------------|--------------|
| | \$ |
| <hr/> | |
| Cash | 879 |
| Transaction costs | 20 |
| Promissory notes | 925 |
| Total purchase consideration | 1,824 |

The allocation of the purchase price for the acquisition of PLNE, based on management's estimate, is as follows:

| | |
|-------------------------------------|--------------|
| | \$ |
| <hr/> | |
| Current assets | 517 |
| Capital assets | 37 |
| Intangible assets | 635 |
| Goodwill | 1,014 |
| Future tax liability | (216) |
| Liabilities assumed | (163) |
| Total purchase consideration | 1,824 |

The Company's consolidated results include the results of PLNE from February 1, 2008.

The promissory notes have differing repayment periods not longer than two years, including \$546 of notes convertible to the Company's common shares at a price of \$5.25, at the option of the vendors.

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3. SHAREHOLDERS' EQUITY

Shareholders' equity consists of the following:

| | February 29 2008 | November 30 2007 |
|--------------------------------------|---------------------|---------------------|
| | \$ | \$ |
| Retained earnings | 8,792 | 7,896 |
| Accumulated other comprehensive loss | (3,327) | (2,152) |
| | 5,465 | 5,744 |
| Share capital | 7,977 | 7,977 |
| Other paid-in-capital | 1,115 | 1,115 |
| Contributed surplus | 454 | 440 |
| | 15,011 | 15,276 |

The authorized and issued common share capital consists of the following:

| | February 29 2008 | November 30 2007 |
|--|---------------------|---------------------|
| | \$ | \$ |
| Authorized | | |
| Unlimited common shares | | |
| Issued | | |
| 4,902,065 [2007 – 4,902,065] common shares | 7,977 | 7,977 |

Incentive stock option plan

The Company has an incentive stock option plan [the "Plan"], which provides for the granting of options to directors, officers, and key employees. The maximum number of shares that may be issued under the plan is 650,000 common shares of the Company at any point in time. The exercise price of common shares subject to an option is determined at the time of grant and the price cannot be less than the closing market price of the common shares of the Company on the TSX Venture Exchange on the day of the grant. Options generally expire three years after the grant date and are also subject to early expiry in the event of death, resignation, dismissal or retirement of an optionee. Options generally vest over three years, one-quarter on the day of grant, and one-quarter on each of the first, second and third anniversary of the grant date.

Prism Medical Ltd.

A summary of the Plan and changes during each of 2007 and the three months ending February 29, 2008 are as follows:

| | Three Months ending February 29, 2008 | | 2007 | |
|--|---|---|---|---|
| | Options on common shares # | Weighted average exercise price \$ | Options on common shares # | Weighted average exercise price \$ |
| Outstanding, beginning of period | 200,000 | 4.47 | 230,000 | 4.45 |
| Forfeited | (30,000) | 4.30 | (30,000) | 4.30 |
| Outstanding, end of period | 170,000 | 4.50 | 200,000 | 4.47 |
| Options exercisable at the period end | 127,500 | 4.50 | 150,000 | 4.45 |

The following table summarizes information about options outstanding at February 29, 2008:

| Exercise price \$ | Options outstanding | | Exercise price \$ |
|----------------------------------|--|--|----------------------------------|
| | Weighted average number outstanding # | Weighted average remaining contractual life [years] | |
| 4.30 | 120,000 | 0.24 | 4.30 |
| 4.90 | 30,000 | 0.33 | 4.90 |
| 5.07 | 20,000 | 0.66 | 5.07 |
| | 170,000 | 0.31 | 4.50 |

| Exercise price \$ | Options exercisable | | Exercise price \$ |
|----------------------------------|--|--|----------------------------------|
| | Weighted average number outstanding # | | |
| 4.30 | 90,000 | | 4.30 |
| 4.90 | 22,500 | | 4.90 |
| 5.07 | 15,000 | | 5.07 |
| | 127,500 | | 4.50 |

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The Company accounts for stock options granted after December 1, 2003 under the fair value method. During the first quarter of 2008, Nil [2007 – Nil] stock options were granted and the Company recorded as compensation expense \$14 [2007 – \$29].

The fair value of stock options was estimated at the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

- Risk-free interest rate 3.15%
- Expected volatility 68%
- Expected average life of the options 3 years
- Expected dividend yield n/a

The Black-Scholes option valuation model used by the Company to determine fair values was developed for use in estimating the fair value of freely traded options, which are fully transferable and have no vesting restrictions. The Company's employee stock options are not transferable, cannot be traded and are subject to vesting restrictions and exercise restrictions under the Company's blackout policy. Changes to the subjective input assumptions used in the model can cause a significant variation in the estimate of the fair value of the options.

Earnings per share

The following is a reconciliation of the numerator and denominator of earnings per share computations:

| | For the three months ended | |
|---|-----------------------------------|------------------------------|
| | February 29, 2008 | February 28, 2007 |
| | \$ | \$ |
| Net income for period | 896 | 205 |
| After-tax interest expense on convertible debentures | 186 | - |
| Adjusted net income for fully diluted earnings per share | 1,082 | 205 |
| Weighted average number of common shares outstanding | 4,902 | 6,025 |
| Effect of dilutive securities | 2,933 | - |
| Diluted weighted average shares outstanding | 7,835 | 6,025 |
| Earnings per share | | |
| Basic | \$0.18 | \$0.03 |
| Diluted | \$0.14 | \$0.03 |

In the first quarter of 2007 the outstanding convertible debentures were anti-dilutive to diluted earnings per share when using the treasury method of accounting. Therefore they were excluded in the calculation of diluted earnings per share.

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4. SEGMENTED INFORMATION

The Company is organized and managed as a single operating segment being a supplier of medical products and the Company is viewed as a single operating segment by the chief operating decision maker for the purposes of resource allocations and assessing performance.

Domestic and foreign operations consist of the following:

Geographic segments

| | February 29, 2008 | | | |
|--|--------------------------|---------------|-----------------------|---------------|
| | USA | Canada | United Kingdom | Total |
| | \$ | \$ | \$ | \$ |
| Revenue | 1,062 | 2,896 | 6,854 | 10,812 |
| Property, plant and equipment and goodwill | 1,317 | 1,357 | 16,945 | 19,619 |

| | February 28, 2007 | | | |
|--|--------------------------|---------------|-----------------------|--------------|
| | USA | Canada | United Kingdom | Total |
| | \$ | \$ | \$ | \$ |
| Revenue | 944 | 2,560 | 6,627 | 10,131 |
| Property, plant and equipment and goodwill | 265 | 1,198 | 18,188 | 19,651 |

Revenues are attributed to countries based on the location of the customer.

Prism Medical Ltd.

5. STATEMENT OF CASH FLOWS

The net change in non-cash working capital balances related to operations consists of the following:

| | For the three months ended | |
|--|----------------------------|----------------------|
| | February 29, 2008 | February 28, 2007 |
| | \$ | \$ |
| Accounts receivable | 440 | 856 |
| Inventories | (1,164) | (445) |
| Prepaid expenses | (166) | (332) |
| Other receivables | 591 | 8 |
| Income tax asset | 128 | (117) |
| Accounts payable and accrued liabilities | (725) | (625) |
| Income taxes payable | (39) | 25 |
| Cash used by operating activities | (935) | (630) |

6. NORMAL COURSE ISSUER BID

The Company adopted a normal course issuer bid for up to 302,163 of its issued common shares, representing approximately 5% of the common shares outstanding. This bid was commenced on August 1, 2006 and ended on July 31, 2007. Purchases were made on the open market through the facilities of the TSX Venture Exchange at the market price. All common shares purchased under the normal course issuer bid were returned to treasury and cancelled.

During the first quarter of 2007, 31,500 common shares were purchased under the normal course issuer bid for an aggregate cost of \$106, of which \$53 of the cost was applied as a reduction of retained earnings, \$6 as a reduction of contributed surplus and \$47 as a reduction of share capital.

These purchases represented approximately 0.5% of the common shares outstanding.

Prism Medical Ltd.

7. SUBSEQUENT EVENTS

Incentive stock option plan

The Company granted options on March 13, 2008 to acquire 120,000 common shares at an option price of \$3.61 subject to the terms and conditions of the Company's stock option plan. The options have a term of three years and were granted to senior officers of the Company.

Normal course issuer bid

The Company adopted a normal course issuer bid for up to 170,000 of its issued common shares, representing approximately 3.5% of the common shares outstanding. This bid commenced on March 17, 2008 and will continue until the earlier of March 16, 2009 or the date on which the Company has acquired the maximum number of common shares that may be purchased. Purchases will be made through the facilities of the TSX Venture Exchange at the market price. All common shares purchased under the normal course issuer bid will be returned to treasury and cancelled.

Dividends

The Company paid a dividend on April 15, 2008, in the amount of \$0.10 per common share totaling \$490.

8. COMPARATIVE CONSOLIDATED FINANCIAL STATEMENTS

The comparative consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the 2008 consolidated financial statement.