

**Consolidated Financial Statements**  
(unaudited)

**Prism Medical Ltd.**  
(Formerly Prism Equities Inc.)

**August 31, 2004**

*Prism Third Quarter Report 2004*

**Prism Medical Ltd.****CONSOLIDATED BALANCE SHEET**

|   | August 31<br>2004<br>(unaudited)<br>\$ | November 30<br>2003<br>(audited)<br>\$ |
|---|--|--|
| <b>ASSETS</b>                               |  |  |
| <b>Current</b>                              |  |  |
| Cash and cash equivalents                   | 10,792                                 | 237,889                                |
| Accounts receivable                         | 6,017,446                              | 4,417,412                              |
| Inventory                                   | 4,511,319                              | 3,091,006                              |
| Prepaid expenses                            | 453,586                                | 269,507                                |
| Income taxes recoverable                    | 111,169                                | 42,156                                 |
| Current portion of note receivable          | 917,333                                | 285,882                                |
| <b>Total current assets</b>                 | <b>12,021,645</b>                      | <b>8,343,852</b>                       |
| Capital assets, net                         | 1,352,843                              | 1,325,596                              |
| Deferred charges, net                       | 2,937,165                              | 2,220,304                              |
| Goodwill net of accumulated amortization    | 3,526,388                              | 3,481,057                              |
| Note receivable                             | 43,666                                 | 825,255                                |
|   | <b>19,881,707</b>                      | <b>16,196,064</b>                      |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b> |  |  |
| <b>Current</b>                              |  |  |
| Bank indebtedness                           | 2,636,206                              | 1,602,328                              |
| Accounts payable and accrued liabilities    | 4,611,899                              | 3,248,182                              |
| Income taxes payable                        | 635,684                                | —                                      |
| Current portion of long-term debt           | 176,138                                | 950,654                                |
| <b>Total current liabilities</b>            | <b>8,059,927</b>                       | <b>5,801,164</b>                       |
| Long-term debt                              | 1,261,000                              | 1,333,539                              |
| Future tax liabilities                      | 274,045                                | 403,760                                |
| <b>Total liabilities</b>                    | <b>9,594,972</b>                       | <b>7,538,463</b>                       |
| <b>Shareholders' equity</b>                 |  |  |
| Share capital [note 3]                      | 4,763,053                              | 4,484,634                              |
| Foreign exchange translation adjustment     | 168,488                                | (24,233)                               |
| Contributed surplus                         | 66,803                                 | 66,803                                 |
| Retained earnings                           | 5,288,391                              | 4,130,397                              |
| <b>Total shareholders' equity</b>           | <b>10,286,735</b>                      | <b>8,657,601</b>                       |
|   | <b>19,881,707</b>                      | <b>16,196,064</b>                      |

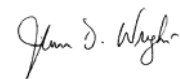
See accompanying notes

On behalf of the Board:

Director



Director



**Prism Third Quarter Report 2004**

**Prism Medical Ltd.****CONSOLIDATED STATEMENT OF INCOME  
AND RETAINED EARNINGS**

| (unaudited)  | Three months ended      |                         | Nine months ended       |                         |
|--|-------------------------|-------------------------|-------------------------|-------------------------|
|  | August 31<br>2004<br>\$ | August 31<br>2003<br>\$ | August 31<br>2004<br>\$ | August 31<br>2003<br>\$ |
| Sales  | 6,794,464               | 5,041,987               | 21,179,824              | 16,058,088              |
| Cost of goods sold   | 3,902,117               | 3,153,902               | 12,822,830              | 9,712,500               |
| <b>Gross profit</b>  | <b>2,892,347</b>        | <b>1,888,085</b>        | <b>8,356,994</b>        | <b>6,345,588</b>        |
| <b>Expenses</b>  |                         |                         |                         |                         |
| Selling and administrative   | 2,293,237               | 1,627,879               | 5,962,027               | 4,978,588               |
| Loss on note receivable  | —                       | —                       | 121,021                 | —                       |
|  | <b>2,293,237</b>        | <b>1,627,879</b>        | <b>6,083,048</b>        | <b>4,978,588</b>        |
| Income from operations before<br>depreciation and amortization, interest<br>and provision for income taxes | 599,110                 | 260,206                 | 2,273,946               | 1,367,000               |
| Amortization   | 110,880                 | 100,293                 | 281,210                 | 231,879                 |
| Interest   | 56,947                  | 67,240                  | 159,564                 | 196,130                 |
| <b>Income before income taxes</b>  | <b>431,283</b>          | <b>92,673</b>           | <b>1,833,172</b>        | <b>938,991</b>          |
| Provision for income taxes   |                         |                         |                         |                         |
| Current  | 223,012                 | (19,065)                | 696,157                 | 172,325                 |
| Future   | 6,048                   | 17,303                  | (20,979)                | 76,931                  |
|  | <b>229,060</b>          | <b>(1,762)</b>          | <b>675,178</b>          | <b>249,256</b>          |
| <b>Net Income</b>  | <b>202,223</b>          | <b>94,435</b>           | <b>1,157,994</b>        | <b>689,735</b>          |
| Retained earnings, beginning of period   | 5,086,168               | 3,878,244               | 4,130,397               | 3,282,944               |
| <b>Retained earnings, end of the period</b>  | <b>5,288,391</b>        | <b>3,972,679</b>        | <b>5,288,391</b>        | <b>3,972,679</b>        |
| <b>Earnings per share [Note 3]</b>   |                         |                         |                         |                         |
| Basic  | \$0.05                  | \$0.03                  | \$0.29                  | \$0.20                  |
| Diluted  | \$0.04                  | \$0.03                  | \$0.25                  | \$0.17                  |

See accompanying notes

**Prism Third Quarter Report 2004**

## Prism Medical Ltd.

### CONSOLIDATED STATEMENT OF CASH FLOWS

| (unaudited)  | Three months ended      |                         | Nine months ended       |                         |
|--|-------------------------|-------------------------|-------------------------|-------------------------|
|  | August 31<br>2004<br>\$ | August 31<br>2003<br>\$ | August 31<br>2004<br>\$ | August 31<br>2003<br>\$ |
| <b>OPERATING ACTIVITIES</b>                                |                         |                         |                         |                         |
| Income from operations                                     | 202,223                 | 94,435                  | 1,157,994               | 689,735                 |
| Add (deduct) items not affecting cash                      |                         |                         |                         |                         |
| Future income taxes  | 6,048                   | 17,303                  | (20,979)                | 76,931                  |
| Amortization   | 218,766                 | 160,782                 | 592,147                 | 386,334                 |
|  | 427,037                 | 272,520                 | 1,729,162               | 1,153,000               |
| Net change in non-cash working capital balances            | (1,619,755)             | (216,293)               | (1,243,655)             | (1368,206)              |
| <b>Cash provided by (used in) operating activities</b>     | <b>(1,192,718)</b>      | <b>56,227</b>           | <b>485,507</b>          | <b>(215,206)</b>        |
| <b>INVESTING ACTIVITIES</b>                                |                         |                         |                         |                         |
| Deferred charges   | (378,763)               | (113,818)               | (952,415)               | (619,360)               |
| Acquisition of subsidiary                                  | —                       | 166                     | —                       | (7,970)                 |
| Purchase of capital assets                                 | (111,424)               | (56,846)                | (343,882)               | (465,349)               |
| Decrease / (increase) in notes receivable net of repayment | (361,538)               | (290,937)               | 157,034                 | (383,698)               |
| <b>Cash used in investing activities</b>                   | <b>(851,725)</b>        | <b>(461,435)</b>        | <b>(1,139,263)</b>      | <b>(1,476,377)</b>      |
| <b>FINANCING ACTIVITIES</b>                                |                         |                         |                         |                         |
| (Decrease) / increase in bank indebtedness                 | 1,923,790               | 371,542                 | 1,007,465               | 1,635,585               |
| Repayment of promissory note                               | —                       | —                       | (635,000)               | —                       |
| Repayment of long-term debt                                | (71,216)                | (74,154)                | (224,571)               | (709,681)               |
| Issuance of share capital <i>[Note 3]</i>                  | 169,875                 | —                       | 278,419                 | 195,000                 |
| <b>Cash provided by financing activities</b>               | <b>2,022,449</b>        | <b>297,388</b>          | <b>426,313</b>          | <b>1,120,904</b>        |
| <b>Effect of exchange rate changes on cash</b>             | <b>(299)</b>            | <b>(7,249)</b>          | <b>346</b>              | <b>(15,853)</b>         |
| <b>Net increase (decrease) in cash during the period</b>   | <b>(22,293)</b>         | <b>(115,069)</b>        | <b>(227,097)</b>        | <b>(586,532)</b>        |
| Cash and cash equivalents, beginning of period             | 33,085                  | 199,871                 | 237,889                 | 671,334                 |
| <b>Cash and cash equivalents, end of period</b>            | <b>10,792</b>           | <b>84,802</b>           | <b>10,792</b>           | <b>84,802</b>           |
| <b>Supplemental cash flow information</b>                  |                         |                         |                         |                         |
| Interest paid  | 56,947                  | 67,240                  | 159,564                 | 196,130                 |
| Early termination fee paid                                 | —                       | —                       | —                       | 650,000                 |
| Taxes paid   | 171,678                 | 116,174                 | 193,091                 | 308,062                 |

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## **Prism Medical Ltd.**

### **NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED AUGUST 31, 2004.**

#### **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 included in the Company's Annual Report for the year ended November 30, 2003.

#### **2. CORPORATE NAME CHANGE**

On June 8, 2004 the Company announced that it changed its name from Prism Equities Inc. to Prism Medical Ltd. The change of name was approved at the May 31, 2004 annual meeting of shareholders to better reflect the focus of Prism's business on the manufacture, sale and distribution of products for the mobility impaired.

#### **3. SHARE CAPITAL**

The authorized and issued share capital consists of the following:

|   | <b>2004</b>      | <b>2003</b> |
|---|------------------|-------------|
|   | \$               | \$          |
| <b>Authorized</b>   |                  |             |
| Unlimited common shares   |                  |             |
| Unlimited Class A shares, non-voting, redeemable,<br>non-cumulative preferential dividends as determined from<br>time to time, equal to 80% of the stated capital, multiplied<br>by the Canadian Imperial Bank of Commerce's prime rate |                  |             |
| <b>Issued</b>   |                  |             |
| 4,101,292 [2003 – 3,547,494] common shares  | <b>4,763,053</b> | 3,628,207   |

On February 5, 2004, options to purchase 20,000 common shares at \$1.81 per share were exercised for proceeds of \$36,200.

During the second quarter options to purchase 16,834 common shares at \$1.66 per share were exercised for proceeds of \$27,944. During the second quarter warrants to purchase 24,000 common shares at \$1.85 per share were exercised for proceeds of \$44,400.

During the third quarter options to purchase 3,750 common shares at \$2.10 per share were exercised for proceeds of \$7,875. During the third quarter warrants to purchase 70,000 common shares were exercised for proceeds of \$162,000.

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## Prism Medical Ltd.

### NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED AUGUST 31, 2004.

#### Earnings per share

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

|   | Three months ended      |                         | Nine months ended       |                         |
|---|-------------------------|-------------------------|-------------------------|-------------------------|
|   | August 31<br>2004<br>\$ | August 31<br>2003<br>\$ | August 31<br>2004<br>\$ | August 31<br>2003<br>\$ |
| <b>Net income</b>   | <b>202,223</b>          | 94,435                  | <b>1,157,994</b>        | 689,735                 |
| After-tax interest expense on convertible debentures            | <b>16,985</b>           | 16,800                  | <b>50,587</b>           | 50,622                  |
| <b>Adjusted net income for fully diluted earnings per share</b> | <b>219,208</b>          | 111,235                 | <b>1,208,581</b>        | 740,357                 |
| Weighted average number of common shares outstanding            | <b>4,049,213</b>        | 3,547,494               | <b>4,005,538</b>        | 3,533,793               |
| Effect of dilutive securities                                   | <b>905,387</b>          | 792,675                 | <b>840,076</b>          | 778,666                 |
| <b>Diluted weighted average shares outstanding</b>              | <b>4,954,600</b>        | 4,340,169               | <b>4,845,614</b>        | 4,312,459               |
| <b>Earnings per share</b>                                       |                         |                         |                         |                         |
| Basic – net income  | <b>\$0.05</b>           | \$0.03                  | <b>\$0.29</b>           | \$0.20                  |
| Diluted – net income  | <b>\$0.04</b>           | \$0.03                  | <b>\$0.25</b>           | \$0.17                  |

## Prism Medical Ltd.

### NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED AUGUST 31, 2004.

#### 4. INFORMATION BY INDUSTRY SEGMENT

The Company's operations consist of only a medical products segment.

| Geographic segments   | Three months ended |                   | Nine months ended |                   |
|-----------------------|--------------------|-------------------|-------------------|-------------------|
|                       | August 31<br>2004  | August 31<br>2003 | August 31<br>2004 | August 31<br>2003 |
|                       | \$                 | \$                | \$                | \$                |
| <b>Sales</b>          |                    |                   |                   |                   |
| Canada                | 2,170,154          | 1,545,493         | 8,176,506         | 5,289,681         |
| United Kingdom        | 4,624,310          | 3,496,494         | 13,003,318        | 10,768,407        |
| Total                 | 6,794,464          | 5,041,987         | 21,179,824        | 16,058,088        |
| <b>Capital Assets</b> |                    |                   |                   |                   |
| Canada                | 895,968            | 616,617           | 895,968           | 616,617           |
| United Kingdom        | 456,875            | 324,709           | 456,875           | 324,709           |
| Total                 | 1,352,843          | 941,326           | 1,352,843         | 941,326           |
| <b>Goodwill</b>       |                    |                   |                   |                   |
| Canada                | 326,900            | 326,900           | 326,900           | 326,900           |
| United Kingdom        | 3,199,488          | 3,136,582         | 3,199,488         | 3,136,582         |
| Total                 | 3,526,388          | 3,463,482         | 3,526,388         | 3,463,482         |

Sales are attributed to countries based on the location of the subsidiary operations.

#### 5. STATEMENT OF CASH FLOWS

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

|  | Three months ended |                   | Nine months ended |                   |
|--|--------------------|-------------------|-------------------|-------------------|
|  | August 31<br>2004  | August 31<br>2003 | August 31<br>2004 | August 31<br>2003 |
|  | \$                 | \$                | \$                | \$                |
| Accounts receivable                      | (243,657)          | 546,263           | (1,417,885)       | 828,248           |
| Inventories                              | (848,650)          | (199,313)         | (1,342,239)       | (853,129)         |
| Prepaid expenses                         | 163,424            | (258,038)         | (175,677)         | (578,496)         |
| Income and other taxes recoverable       | (36,791)           | 26,919            | (79,060)          | 744               |
| Accounts payable and accrued liabilities | (692,518)          | (295,204)         | 1,234,211         | (708,482)         |
| Reduction in future tax liabilities      | —                  | —                 | (108,736)         | —                 |
| Income and other taxes payable           | 38,437             | (36,920)          | 645,731           | (57,091)          |
|  | (1,619,755)        | (216,293)         | (1,243,655)       | (1,368,206)       |

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## **Prism Medical Ltd.**

### **NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED AUGUST 31, 2004.**

#### **6. SUBSEQUENT EVENTS**

The Company announced on September 17, 2004 that it had completed its previously announced private placement of convertible subordinated debentures and its acquisition of two privately owned United Kingdom based manufacturers of durable medical equipment.

The Company, through its wholly-owned subsidiary Prism UK Medical Ltd., acquired substantially all of the business assets of Freeway Healthcare and Tri-care Developments, two privately owned United Kingdom based manufacturers of durable medical equipment, from their owner-managers. Freeway Healthcare and Tri-care Developments are low cost innovative producers of high quality moving and handling products sold through a network of independently owned homecare dealers across the United Kingdom. Freeway Healthcare manufactures tubular metal welded products, including shower chairs. Tri-care Developments manufactures ceiling and floor hoists. These products are complementary to those currently being sold by Prism's wholly-owned United Kingdom subsidiary, Westholme Limited. The engineering capabilities of the two businesses are complementary to those of Prism's other subsidiaries and will provide depth and breadth to Prism's research and development group. The acquisitions afford Prism the opportunity to accelerate its growth strategies and are anticipated to be immediately accretive to earnings.

The purchase price for the businesses was satisfied, in part by issuing to the owner-managers 7% secured promissory notes with a principal amount of approximately \$5,190,000 and 750,000 common shares of Prism, with the balance of \$5,424,000 paid in cash.

Prism also completed the previously announced private placement of an aggregate of \$11,000,000 of 8% convertible subordinated debentures with a term of 7 years. The proceeds were used by Prism to satisfy the cash portion of the purchase price for the businesses acquired, and the remainder was used to provide working capital. The debentures are convertible into common shares of Prism at a conversion price of \$3.75 per share, subject to customary anti-dilution adjustments, and are secured by a pledge of the shares of PM Mercantile Group Inc. and Prism's key operating subsidiaries and a floating charge over Prism's assets. Prism's obligations under the debentures are guaranteed by PM Mercantile Group Inc. and its operating subsidiaries. The security ranks behind the security held by Prism's senior lenders and behind the security to be granted to the owner-managers of the businesses acquired for the promissory notes to be issued to them as part of the purchase price consideration for the acquisitions. The private placement was approved in advance by a written resolution of holders of a majority of the outstanding common shares of Prism in accordance with the requirements of the TSX Venture Exchange.

## **Prism Medical Ltd.**

### **Management's Discussion and Analysis of Financial Condition and Results of Operations**

The following discussion of financial condition and results of operations of Prism Medical Ltd. ("Prism" or "the Company") for the three-month and nine-month periods ended August 31, 2004 and 2003 should be read in conjunction with the Company's unaudited consolidated financial statements and related notes contained in this interim report and the Company's Management Discussion and Analysis of Financial Conditions and Results of Operations and the audited consolidated financial statements and related notes contained in the 2003 Annual Report.

### **Liquidity and Capital Resources**

#### **Statement of Cash Flows**

##### *Cash Provided from Operating Activities*

For the three months ended August 31, 2004, cash generated from operations before changes in non-cash working capital was \$427,037 compared to \$272,520 in the same period last year reflecting the higher net income and amortization expenses. During the nine month period ended August 31, 2004, operations generated \$1,729,162 before changes in non-cash working capital compared to \$1,153,000 during the same period last year.

During the three month period ended August 31, 2004, operations consumed \$1,619,755 of non-cash working capital compared to \$216,293 in the same period last year. Investment in accounts receivable was modest compared to the level of sales growth. Significant investments in finished goods inventory was made during the quarter in order to improve delivery times to customers. Purchases of inventory towards the end of the second quarter resulted in higher levels of accounts payable which were subsequently paid during the third quarter. During the nine month period ended August 31, 2004, operations consumed \$1,243,655 of non-cash working capital compared to \$1,368,206 in the same period last year.

##### *Investing Activities*

The company purchased \$343,882 of fixed assets during the nine month period ended August 31, 2004 compared to \$465,349 in the same period last year. The increase includes the cost of upgrading the computer system in both Canada and the UK.

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## **Prism Medical Ltd.**

### **Management's Discussion and Analysis of Financial Condition and Results of Operations**

Deferred cost expenditures of \$378,763 were made during the quarter (2003 - \$113,818). Year to date expenditures total \$952,415 this year compared to \$619,360 last year. The majority of the increase is related to due diligence costs of the previously announced UK acquisitions and the associated costs of raising capital. Given the significant investment made over the past few years to upgrade all of our ceiling lift product line, development costs associated with new products were negligible in the quarter .

Increases in notes receivable totaled \$361,538 in the three month period ended August 31, 2004 compared to \$290,937 for the same period in 2003. Further advances of \$283,111 were made in the quarter to Lift and Transfer Solutions Unlimited ["LTSU"] to fund the working capital requirements in Florida, USA. This corporation is focused solely on the moving and handling market and is being modeled after Westholme. The company's note receivable of \$756,021 arising from the sale of Zodiac Fabrics Inc. in 2002 was repaid prior to maturity in the second quarter for a discounted amount resulting in a \$121,021 non-recurring write-down in the quarter.

On September 20, 2004 the Company acquired substantially all of the business assets of Freeway Healthcare and Tri-care Developments, two privately owned United Kingdom based manufacturers of durable medical equipment, from their owner-managers for approximately \$13 million. Freeway Healthcare and Tri-care Developments are low cost innovative producers of high quality moving and handling products sold through a network of independently owned homecare dealers across the United Kingdom. Freeway Healthcare manufactures tubular metal welded products, including shower chairs. Tri-care Developments manufactures ceiling and floor hoists. These products are complementary to those currently being sold by Prism's wholly-owned United Kingdom subsidiary, Westholme Limited. The engineering capabilities of the two businesses are complementary to those of Prism's other subsidiaries and will provide depth and breadth to Prism's research and development group. The acquisitions afford Prism the opportunity to accelerate its growth strategies and are anticipated to be immediately accretive to earnings.

The purchase price for the businesses will be satisfied, in part by issuing to the owner-managers 7% secured promissory notes with a principal amount of approximately \$5,190,000 and 750,000 common shares of Prism, with the balance of \$5,424,000 to be paid in cash.

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## **Prism Medical Ltd.**

### **Management's Discussion and Analysis of Financial Condition and Results of Operations**

#### *Financing Activities*

Cash raised through the issue of share capital arising on the exercise of warrants and options during the quarter was \$169,875 compared to nil for the same period last year. The Company repaid its \$635,000 promissory note in the second quarter of 2004. The Company increased its bank indebtedness by \$1,923,790 in the third quarter compared to \$371,542 in the prior year.

On September 17, 2004, the Company announced it had completed the previously announced private placement of an aggregate of \$11,000,000 of 8% convertible subordinated debentures with a term of 7 years. The proceeds will be used by Prism to satisfy the cash portion of the purchase price for the businesses to be acquired, and the remainder will be used to provide working capital for those businesses and Prism's other businesses.

#### **Capital Resources**

The Company's capital resources at August 31, 2004 including cash and cash equivalents and unused bank overdraft facilities were \$ 705,551 compared to \$1,844,005 at November 30, 2003. The Company signed a new credit facility with its banker in August which will be implemented in October 2004 which effectively increases the available credit by \$1,000,000.

#### **Results of Operations**

For the three months ending August 31, 2004 net income was \$202,223 (\$0.04 per share on a fully diluted basis) versus \$94,435 (\$0.03 per share on a fully diluted basis) for the same period last year. For the nine months ending August 31, 2004 net income was \$1,157,994 (\$0.25 per share on a fully diluted basis) versus \$689,735 (\$0.17 per share on a fully diluted basis) for the same period last year.

Sales in the third quarter of 2004 increased by \$1,752,477 (35%) over the same period last year. Sales in the UK increased by \$1,127,816 (32%) while North

## **Prism Medical Ltd.**

### **Management's Discussion and Analysis of Financial Condition and Results of Operations**

American sales increased by \$624,661 (40 %) over the same period last year. Sales for the nine months ended August 31, 2004 increased by \$5,121,736 (32%) over the same period last year.

The Company continued to feel the positive effect of the March 2004 announcement by the Ministries of Health and Labour to provided funding to Ontario hospitals to purchase patient lifts in order to reduce healthcare worker injuries. In the UK, past investments in additional locations and experienced sales people focusing on new distribution channels are starting to pay dividends. Strong year over year sales growth was achieved this quarter with real growth in pounds sterling of approximately 21%.

Gross profit as a % of sales was 43% in the three-month period ending August 31, 2004 (2003 – 37%) and 39% for the nine-month period ending August 31, 2004 (2003 – 40%). Gross margin % in the UK in the third quarter of 2004 was consistent compared to the same period last year. North American gross profit as a % of sales was up in the third quarter of 2004 compared to the same period last year due to higher manufacturing volumes and improved efficiencies.

Selling and administrative expenses increased by \$665,358 to \$2,293,237 for the three months ended August 31, 2004 compared to the same period last year and by \$983,439 to \$5,962,027 for the nine months ended August 31, 2004 compared to the same period in 2003. This increase is consistent with the higher level of business activity.

Interest costs for the third quarter were \$56,947 compared to \$67,240 in the same period last year. Interest costs for the nine months ended August 31, 2004 were \$159,564 compared to \$196,130 in the same period last year. The decrease can be attributed to lower levels of long-term debt and short-term bank indebtedness this period compared to a year ago.

Amortization costs increased to \$110,880 in the three months ending August 31, 2004 compared to \$100,293 in the same period last year. Amortization costs increased to \$281,210 in the nine months ending August 31, 2004 compared to \$231,879 in the same period last year. The increase is due to the commencement in 2004 of amortization of newly completed products.

## **Prism Medical Ltd.**

### **Management's Discussion and Analysis of Financial Condition and Results of Operations**

#### **Business Conditions and Outlook**

The Company is continuing its organic growth strategies through geographic expansion, introduction of new products and the pursuit of new market channels. The recently completed UK acquisitions are highly accretive and should contribute positively to our fourth quarter results.

Results can be impacted significantly by the availability of institutional funding. In the recent May 2004 Ontario budget, the government announced it was providing \$60 million over the next two years for 12,000 patient lifts in hospitals and long-term care homes to ensure the safe movement of patients. An announcement by the government indicating when and how this money will be spent has not been made to date but is expected soon. While there is no guarantee that the Company will be successful in winning any of this new business, it is a positive indication of the government's commitment to funding products and services in the market niche in which Prism operates.

#### **Forward-looking Information**

Certain statements in this report August constitute forward-looking statements. Such forward-looking statements involve risks, uncertainties and other factors, which may cause actual results, performance or achievements of the Company to be materially different from future results, performance or achievements expressed or implied by such forward-looking statements.



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Andrew McIntyre  
President and Chief Executive Officer  
October 13, 2004