

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying consolidated financial statements have been prepared by management and approved by the Board of Directors of the Company. Management is responsible for the information and representations contained in these consolidated financial statements and in other sections of this Annual Report.

The Company maintains appropriate processes to ensure that relevant and reliable financial information is produced. The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada. The significant accounting policies, which management believes are appropriate for the Company, are described in Note 1 to the consolidated financial statements.

The Board of Directors is responsible for reviewing and approving the consolidated financial statements and overseeing management's performance of its financial reporting responsibilities. An Audit Committee of three independent outside Directors is appointed by the Board.

The Audit Committee reviews the consolidated financial statements, adequacy of internal controls, audit process and financial reporting with management and with the external auditors. The Audit Committee reports to the Board of Directors prior to the approval of the audited consolidated financial statements for publication.

Ernst & Young LLP, our independent registered chartered accountants firm, who are appointed by the shareholders, reports directly to the Audit Committee of the Board of Directors. Ernst & Young LLP's accompanying report on our consolidated financial statements is based on its examination conducted in accordance with auditing standards generally accepted in Canada.

We fully understand and embrace our fiduciary oversight responsibilities and are dedicated to ensuring that our high standards of financial accounting and reporting as well as our underlying system of internal controls are maintained. Our culture demands integrity and we have the highest confidence in our processes, our internal controls, and our people, who are objective in their responsibilities and who operate under the highest level of ethical standards.

"Andrew McIntyre"
Chairman and Chief Executive Officer

"Donald Harkness"
Chief Financial Officer

March 24, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion of the financial condition and results of operations of the Company should be read in conjunction with the consolidated financial statements and notes therein for the year ended November 30, 2005. We have prepared our consolidated financial statements in accordance with Canadian generally accepted accounting principles. All dollar figures are in Canadian dollars unless otherwise stated.

FORWARD-LOOKING STATEMENTS

This document contains forward-looking statements relating to our operations and to the environment in which we operate and our strategy, action plans and investments, which may involve estimates, forecasts and projections. These statements are not guarantees of future performance and involve risks and uncertainties that are difficult to predict and/or are beyond our control. A number of important factors could cause actual outcomes and results to differ materially from those expressed in these forward-looking statements. These factors include those set forth in this report and other public filings. Consequently, readers should not place any undue reliance on such forward-looking statements. In addition, these forward-looking statements relate to the date on which they are made.

We disclaim any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

In this discussion and analysis, "we", "our" and similar references include Prism Medical Ltd. and its subsidiaries.

CORE BUSINESS AND BUSINESS ENVIRONMENT

Prism Medical Ltd. (Prism or the Company) is a provider of durable medical equipment (DME) and related services to the mobility disadvantaged in Canada, the USA and the United Kingdom (UK). While Prism's history dates back to 1996, Prism's subsidiaries have been servicing the mobility disadvantaged since the mid 1980's in their homes, long-term care facilities and acute care facilities.

In North America, our subsidiary Waverley Glen Systems Limited (Waverley) operates from a facility based in Concord, Ontario that includes manufacturing and a showroom/training centre. Waverley also has a showroom/sales centre in Orlando, Florida.

In the UK, our subsidiary Freeway Healthcare (Freeway) operates 2 manufacturing plants in North Wales. Westholme Limited (Westholme) and Care Free Lifting Limited (Care Free) provide estimating, installation, maintenance and training services pursuant to the installation and sale of DME to the homecare market in the UK from four locations on a scale that makes them, in management's estimate, the largest homecare dealer network of their kind in the UK.

Our mission is to save the healthcare system money and improve the quality of life of the mobility disadvantaged and their caregivers by providing superior services and products that most effectively solve the problems related to moving and handling people.

Products and Services

Our core product is a ceiling lift, both fixed and portable. It has a superior technology to other products used to move and handle people and is considered 'best practice' in most jurisdictions. It performs its functions with less risk of injury to the end user and to the caregiver and at a lower cost to the healthcare system. We also sell other related durable medical equipment within the moving and handling segment through all three main customer channels (homecare, long-term care and acute care facilities).

We also provide services which are essential to the effective use of our products. These services include estimation, risk assessment, installation, training and ongoing preventative maintenance. They are provided directly by company-owned operations and by high quality service oriented dealers.

Strategies

Prism pursues a differentiation strategy focused on providing a superior high quality integrated service to the customer that combines knowledge and products. In order to ensure the complete potential of our products is realized, we focus on the efficient installation of ceiling lifts and the thorough training of caregivers and end users. Prism provides this superior service by employing people who want to serve perfectly every time and who are trained to the highest standards possible. Prism also associates itself with dealers and distributors who share and consistently execute this vision of high quality service.

Sales growth is driven by geographic expansion of our Company-owned service capability, an association with a growing number of capable distributors, the addition of related products sold to our customer, and the continued recruitment of people with the knowledge and drive to provide a superior service.

Growth in profitability is also driven by manufacturing the key products that we sell.

We believe these strategies are relatively unique in the durable medical equipment marketplace. Most of our product competitors focus on low cost manufacturing and leave the service and sales to dealer organizations that are typically small regional companies with limited resources and knowledge. As such, they lack a wide capability to provide ongoing services to institutions that purchase the products. However, some product competitors are very good at what they do and may enjoy a cost advantage. Some service provider competitors have special customer relationships which may limit our impact in certain segments of the market.

KEY PERFORMANCE DRIVERS

We hope to enhance shareholder value in 2006 by pursuing the following actions focused on sales and profit growth:

- Achieve broader coverage of the UK market by securing additional high quality dealers and by strategic acquisitions. With broader coverage, we believe additional service and product supply business from national accounts can be secured.
- Focus on securing market share in the high growth regions of the US market. Create the ability to provide the necessary services by using established independent dealers and distributors and acquiring same if opportunities arise. These sales and service organizations must have strong customer relationships and service capabilities.
- Add products and services that our customers need to resolve patient moving and handling issues that we have not historically emphasized. These efforts are focused on a new range of mobile floor lifts in 2006.
- Focus on long-term care and acute care market opportunities through expanded coverage in the UK and the US markets.
- Continue to organize our manufacturing facilities and upgrade the features and cost effectiveness of our product design with the goal of lowering manufacturing costs
- Attract more good people with an emphasis on Americanizing our US operations and attracting additional high quality personnel in our service and design activity areas

CAPABILITY TO DELIVER RESULTS

Ability to Introduce New Products

New products that can achieve meaningful market share are scarce in the competitive business environment in which we operate. The products planned for 2006 introduction have been developed internally or sourced from reputable manufacturing companies. These products represent enhancements or improvements to our current core product offering.

Ability to Attract and Retain Key Knowledge Workers

Our sales and profits are largely dependent upon the quality of our sales efforts and the underlying service providers. We invest considerable time in the selection and recruitment of people with similar value systems to those the Company advocates. Even more time is devoted to training and managing our human resources so that they will grow as individuals and in their ability to contribute to the Company. Human resource policies are routinely updated and improved. Health and safety measures which enhance employee welfare are routinely upgraded. Incentive plans and compensation packages are competitive.

Ability to Attract Adequate Capital

Prism has adequate levels of capital. At November 30, 2005 the Company had \$1.5 million of bank debt and cash of \$0.7 million and unutilized debt capacity of \$4.6 million to finance ongoing operations including planned fixed asset expenditures and research and development expenditures. We expect positive cash flow from operations after all investment and debt repayment activities.

Further capital will be required to consummate any meaningful acquisitions. Historically, Prism has successfully financed acquisitions and other events that required capital infusions. Ultimately our ability to raise capital depends upon our rate of return on shareholders' equity being consistently above what investors can achieve with other lower risk alternatives. Our rate of return on a quarterly weighted average shareholders' equity for the year ended November 30, 2005 was 12%, a level at which we believe we will be able to continue to attract capital.

RESULTS

Overview

2005 was an important year for Prism in several respects. In the fourth quarter of 2004, the Company acquired two UK-based manufacturing companies - Freeway Healthcare and Tricare Developments. Operating as Freeway Healthcare (Freeway) this company manufactures ceiling lifts and shower chairs. During 2005, as these businesses were integrated into the Prism group, the ceiling lift manufacturing operations were moved to a new 20,000 sq. ft. state of the art facility in North Wales allowing it to assume responsibility for manufacturing the ceiling lift products sold in the UK which had previously been supplied from our North American operation.

Midway through 2005, the Company acquired Care Free Lifting Limited (Care Free), a distributor of moving and handling devices in the greater Manchester UK area. While not a large acquisition in terms of sales (approximately \$3.0 million annually), Care Free derived most of its revenue from the sale of mobile floor lifts providing Prism access to a new pool of expertise and product knowledge.

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

	\$
Current assets	1,081,546
Capital assets	240,222
Goodwill	2,110,712
Liabilities assumed	(576,926)
Total purchase consideration	2,855,554

Prism's revenue, net earnings and earnings per share all reached a record high in 2005. Prism's 2005 consolidated results include the results of Freeway for the entire year, compared to only 10 weeks in 2004, and Care Free from June 1, 2005.

	2005	2004	2003
Total assets	\$ 38,721,055	\$ 37,849,970	\$ 16,196,064
Total liabilities	24,328,633	24,854,440	7,538,463
Long-term debt	15,540,268	15,681,863	1,333,539
Sales	46,877,161	29,054,594	21,888,464
EBITDA *	5,943,297	3,614,677	2,004,284
Net Income	1,881,291	1,172,836	847,453
EPS - basic	0.35	0.28	0.24
EPS - fully diluted	0.30	0.25	0.20

* "EBITDA" consists of earnings before interest, income taxes, depreciation and amortization. EBITDA is a financial metric used by many investors to compare companies on the basis of operating results, asset value and the ability to incur and service debt. Management believes that EBITDA is a useful measure in evaluating the performance of the Company. EBITDA is not intended to represent cash flow or results of operations in accordance with Canadian generally accepted accounting principles. EBITDA does not have a standardized meaning prescribed by GAAP and may not be comparable to similarly titled measures reported by other companies.

Sales

Sales are comprised of the following:

	2005	2004	2003
Canada	\$18,901,120	\$8,112,553	\$5,284,789
United States	2,555,761	1,820,526	1,821,167
United Kingdom	25,420,280	19,121,515	14,782,508
	\$ 46,877,161	\$29,054,594	\$21,888,464

In 2005, sales increased by 61% to \$46.9 million from \$29.1 million in 2004. Sales from acquired UK businesses contributed \$9.0 million or 19% of 2005 sales. The ten-week contribution from the acquired UK businesses in 2004 accounted for \$1.9 million or 7% of 2004 sales.

Canada

In 2005, Canadian sales increased by 133% to \$18.9 million from \$8.1 million in 2004. The change in revenue is primarily attributable to the increase in provincial funding of patient lifts in Ontario. The August 2004 Ontario budget provided funding for moving and handling equipment which positively impacted 2005 sales. In 2004, sales had been modestly impacted by a previous funding announcement that marked the first time our core products were funded directly in Ontario.

As a percentage of consolidated sales, Canadian sales represented 40%, up from 28% in 2004. A smaller third funding announcement was made by the Ontario government in the fall of 2005 which will provide hospitals and continuing care facilities with funding to purchase ceiling hoists in the spring of 2006. Through our dealers, Prism will compete to win our share of this new business.

Sales in Canada can be impacted significantly by the availability of institutional funding. There can be no assurance that the Ontario government will continue to provide such funding beyond the spring of 2006 at current funding levels or at all. See "Risk Factors – Government Funding". However, the Company has historically experienced additional or follow on sales to institutions even after direct government funding initiatives were curtailed. Continuing strong sales to institutions in British Columbia is a good example of this experience. Nonetheless, there is no assurance that we will continue to be able to maintain such sales to institutions in the absence of government funding.

United States

In 2005, US sales increased by 40% to \$2.6 million from \$1.8 million in 2004. The change in revenue is primarily attributable to the Company's success in the Florida market. The Company had expected to open two new centres in 2005, but is behind schedule on this initiative. Efforts to acquire either key personnel or established dealers in high growth markets were unsuccessful in 2005. This search continues in 2006 and several opportunities are being pursued.

The US continues to be an immature market for our core products due primarily to the lack of government funding available and the slow adoption of workplace best practices in the healthcare setting. However, there are positive signs that the environment may be changing. The State of Texas has recently passed the first state legislation signed into law requiring hospitals and nursing homes to implement a safe patient handling and movement program. The legislation took

effect January 1, 2006. A number of other states continue working toward legislative protection of health care workers against preventable injury from manual patient lifting.

United Kingdom

UK sales increased 33% to \$25.4 million, up from \$19.1 million in 2004. Sales from Freeway and Care Free, the UK acquired manufacturing and distribution businesses, to external customers totaled \$9.0 million in 2005 compared to \$1.9 million in 2004. If the results from Freeway and Care Free are excluded, sales reported from the UK were down almost \$1.0 million in 2005 compared to 2004 due to the weakening of the British pound against the Canadian dollar. Sales denominated in pounds sterling, were unchanged year over year reflecting the impact of spending restrictions imposed by the British National Health Service on many of our larger customers.

Prism has a strong presence in the northern part of the United Kingdom, but our expansion into the south has met with modest success to date. We are beginning to make progress in identifying quality dealers who will sell and service our core manufactured products in Continental Europe.

Gross Profit

	2005	2004	2003
Gross profit	\$18,060,810	\$11,794,256	\$ 8,516,488
Percentage of sales	39%	41%	39%

Gross profit increased by 53% to \$18.1 million in 2005, up from \$11.8 million in 2004. As a percentage of sales, gross profit decreased 2% from 2004.

Gross profits have historically been lower in North America than in the UK. In North America we have sold through dealers compared to the UK where we enjoy the higher margins realized from selling directly to the customer. In 2005, a greater proportion of sales were generated in North America (46% in 2005 compared to 34% in 2004) thereby applying downward pressure on overall gross profit %.

North America

Lower margin institutional sales impacted gross profits in 2005 to a greater extent than in the prior year due to aggressive competitive pricing. The large spike in sales volumes resulting from the institutional orders and their short delivery times caused stresses on our manufacturing plant costs preventing the realization of the improved margins normally associated with increased volumes.

To accommodate institutional customer requirements, we directly installed a number of projects spread over a wide geography, some with a high degree of complexity. This activity, performed as a non-core service, resulted in modestly negative margins on \$1.3 million in sales which negatively impacts 2005 gross margins as a percentage of sales.

United Kingdom

Overall the Company's UK margins were higher in 2005 compared to the same period in 2004. Freeway and Care Fee, the newly acquired manufacturing companies contributed higher margins during the year reflecting the low cost nature of their manufacturing operations as well as the positive impact of now capturing manufacturing margins on all shower chair sales.

Selling and Administrative

During 2005, the Company received \$0.8 million (\$0.5 million after tax) representing the first installment of a \$1.5 million government grant from the Welsh Assembly Government in the United Kingdom. The grant was provided for the creation and retention of jobs and is to be received over a minimum of three years, in three installments, subject to fulfilling minimum capital expenditure and employment targets in the region. The Welsh Assembly Government may at any time, both prior to and after any or all grant monies have been paid, require repayment if the number of jobs falls below the job targets at any time during the period beginning on the date immediately after the date of the final payment of grant and ending 2 years later or ending 5 years after the date of the first grant, whichever is longer. The grant has been netted against selling and administrative expenses.

Selling and administrative expenses – which include sales and marketing expenses, office expenses, non-manufacturing related salaries and professional fees – increased to \$12.2 million in 2005 from \$8.1 million in 2004. As a percentage of sales, selling, general and administrative expenses were down to 26% of sales in 2005 from 28% in 2004.

12% or \$0.5 million of the increase is due to the acquisition of Freeway in the last quarter of 2004 and 7% or \$0.3 million of the increase is attributable to the Care Free acquisition. The Company's North American operations account for the balance of the increase as they added additional resources to pursue the new business opportunities realized in 2005 and expected in 2006. Westholme's selling and administrative expenses remained relatively flat year over year although they had been higher in the first two quarters of 2005 until reduced by management to better reflect existing business.

Stock Based Compensation

During the year, the Company issued stock options under its incentive stock option plan. Having adopted in 2004 the recommendations of the CICA with respect to the recognition and measurement at fair value of stock-based compensation and other stock –based payments, a \$0.2 million non-tax deductible compensation expense was recorded. There were no options issued in 2004.

Loss on Note Receivable

In 2004 an early repayment of a \$0.7 million note receivable was accepted for a discounted amount resulting in a loss of \$0.1 million.

Goodwill

During the fourth quarter of 2005, Prism performed its annual goodwill impairment test and the fair values of the Company's reporting units were estimated using discounted cash flows. As at November 30, 2005, the Company has \$15.8 million of goodwill on its consolidated balance sheet, up from \$14.6 million at November 30, 2004. The increase is the result of the Care Free acquisition which represented \$2.1 million of goodwill, an increase of \$0.5 million to reflect adjustments to the purchase equation and changes in foreign currency translation of (\$1.3) million.

Prism's growth strategies include strategically acquiring companies consistent with our key performance drivers. Prism has historically acquired companies with relatively little capital assets, but very positive cash flow resulting in purchase prices higher than the fair market value of the assets acquired. The Company believes that this acquisition strategy can result in additional goodwill beneficial to the Company.

Deferred Charges

Prism's growth strategies include the introduction of new products. Many of these products are being developed internally and many of the costs associated with this new product development are deferred and amortized over a maximum period of 4 years. Product development costs deferred in 2005 were \$0.2 million compared to \$0.1 million in 2004.

In 2004 Prism incurred \$1.4 million of financing fees in connection with the convertible debenture agreement entered into in September 2004, and is amortizing these fees over the term of the debenture. Additionally, Prism incurred \$0.14 million of financing fees in connection with a new credit agreement entered into in September 2004 which were amortized over the following twelve months. No new financing fees were incurred in 2005.

Amortization

	2005	2004
Amortization included in cost of goods sold		
Product development	\$—	\$—
Plant, property and equipment - manufacturing assets	460,650	202,600
	<u>460,650</u>	<u>202,600</u>
Amortization - operating		
Product development	268,599	955,899
Plant, property and equipment - non-manufacturing assets	370,628	100,479
Financing, acquisition and start-up costs	395,307	74,320
	<u>1,034,534</u>	<u>1,130,698</u>
Total amortization	<u>\$1,495,184</u>	<u>\$1,333,298</u>

Product development amortization accounted for \$0.3 million in the year compared to \$1.0 million in 2004 which included a one time write off of \$0.3 million related to shower chair development costs no longer required subsequent to the acquisition of Tricare Developments in late 2004.

Interest Expense

Prism's interest expense increased to \$1.6 million in 2005 compared to \$0.5 million in 2004. This increase is attributable to the interest related to the \$11 million convertible debenture issued by the Company in September 2004, the promissory notes issued in respect of the Freeway Healthcare and Care Free acquisitions and the greater use of the line of credit during the year. Please refer to notes 9 and 10 to the consolidated financial statements for more details on the terms of the debt and current credit facility.

Income Taxes

The Company's basic tax rate for 2005 was 36.0%, compared to 36.1% in 2004. Prism's effective tax rate for the year was 34.7%, compared to 34.3% in 2004. Prism benefits from lower effective tax rates in the UK compared to North America. In 2005, Freeway incurred tax deductible goodwill amortization which reduced the effective tax rate. Prism has operations in various countries that have differing tax laws and rates.

Income

In 2005, Prism's net income was \$1.9 million compared to \$1.2 million in 2004. Net earnings per share for 2005 were \$0.35 compared to \$0.28 in 2004. On a diluted basis, 2005 net earnings per share were \$0.30 compared to \$0.25 in 2004, a 20% increase.

Because Prism's business is driven partially by government funding for lifting devices, the Company's quarterly results are subject to fluctuations based on the timing of funding releases. The shift of a major funding release from one quarter to the next could significantly impact Prism's quarterly results.

Summary of Quarterly Results

Quarter	Sales		Net Income		Earnings per share*			
	2005	2004	2005	2004	Basic EPS 2005	2004	Diluted EPS 2005	2004
First	\$ 9,742	\$ 5,253	\$ 334	\$ 92	\$ 0.07	\$ 0.02	\$ 0.06	\$ 0.02
Second	\$ 15,891	\$ 9,132	\$ 1,303	\$ 863	\$ 0.25	\$ 0.20	\$ 0.17	\$ 0.18
Third	\$ 12,093	\$ 6,795	\$ 903	\$ 203	\$ 0.16	\$ 0.05	\$ 0.12	\$ 0.04
Fourth	\$ 9,151	\$ 7,875	\$ (659)	\$ 15	\$ (0.11)	\$ 0.01	\$ (0.11)	\$ 0.01
Year	\$ 46,877	\$ 29,055	\$ 1,881	\$ 1,173				

* Earnings per share figures in the table are calculated on a quarterly basis

There is some seasonality to our business. The first quarter tends to have the lowest sales and profitability due to a slow down in sales and installations through the Christmas season. This trend was more pronounced in past years when homecare was the primary market served by the Company and sales decreased significantly in December. In 2004 and 2005, the trend was obscured by the institutional business in Ontario which started to come on stream in the first quarter. Second quarter continues to be our strongest quarter given its overlap with government budgetary year ends and the resulting spikes in spending. The third and fourth quarters of 2005 include Care Free results.

The Canadian dollar strengthened against the British pound by 9% between the third and fourth quarters of 2005 negatively impacting our consolidated profitability. In addition to the negative foreign currency impact on our UK operations, the Company completed a number of low margin installations in the fourth quarter contributing to the loss in its North American operations.

Liquidity and Capital Resources

Prism ended 2005 with \$0.7 million in cash and cash equivalents compared to \$2.3 million in 2004. At the end of 2004 Prism had cash on hand resulting from the issuance of convertible debentures in September 2004. A portion of the debenture proceeds were not used until the middle of 2005 to complete the acquisition of Care Free.

Cash flow from operations in 2005 was \$0.1 million compared to \$0.7 million in 2004. The \$1.8 million increase in the investment in accounts receivable in 2005 is attributable to the large institutional sales made in Ontario. A significant portion of the installations were not completed until late in 2005 and were outstanding at year end. There were also additional investments made in inventory of \$1.2 million to support the higher levels of current and anticipated business. Our share of anticipated 2006 business was not known at year end, however, the Company made the decision to increase its inventory due to long lead times.

The Company's working capital position at November 30, 2005 was \$9.7 million, compared to \$9.3 million in the prior year due to the addition of working capital associated with the overall higher level of business and the recent Care Free acquisition.

Cash flow from financing activities was \$2.8 million in 2005 resulting primarily for the issuance of common shares in connection with the acquisition of Care Free and an increase in bank debt. During 2005, \$1.3 million of convertible debentures were converted into common shares. In 2004, there was \$15.2 million in cash flow from financing activities generated primarily through the \$11 million convertible debenture issue and the vendor notes issued on the Freeway acquisition.

Cash used in investing activities represented outflows of \$4.3 million in 2005, compared to outflows of \$14.0 million in 2004, principally due to the lower level of acquisition activity in 2005.

Expenditures on deferred charges decreased to \$0.1 million in 2005 from \$1.4 million in 2004. The 2004 amount included deferred charges of \$1.3 million associated with the convertible debenture financing.

In 2005, Prism spent \$1.2 million on capital expenditures compared to \$0.4 million in 2004. Investments were made following the addition of two new manufacturing companies late in 2004 and the subsequent move to the new manufacturing facility.

Overall, Prism's net debt position, which consists of bank indebtedness and long-term debt less cash and cash equivalents, increased to a liability of \$16.7 million at November 30, 2005 from \$15.2 million at November 30, 2004, as a result of the Care Free acquisition.

Long-term Debt

In May 2005, Prism forced the conversion of \$1.3 million of 8% convertible debentures into 720,563 common shares of the Company at an average cost of \$1.75 per share. The debentures were to have matured November 30, 2005. In June 2005, Prism issued \$0.3 million of promissory notes as partial consideration for the Care Free acquisition.

In September 2004, Prism entered into a convertible debenture agreement to finance the UK acquisitions, working capital requirements and additional funds for future acquisitions. Prism also issued promissory notes as partial consideration for the UK acquisitions. During 2005 the promissory notes were increased by \$0.4 million as part of a purchase price adjustment. Promissory note principle repayments of \$0.6 million were made in 2005 compared to \$0.6 million in 2004. Principal repayment obligations of the promissory notes are tied to the profitable performance of the assets acquired.

The Company has a credit facility with its bank. Amounts outstanding under the credit facility are secured by all of the assets of the Company. The terms of the facility are outlined in the table below. For more details, please refer to note 10 to the financial statements.

Credit agreement	Amount (000's)	Interest rate
Revolving credit	7,000	prime +1%
Standby letter of credit	2,000	1 1/2 % per year

As at November 30, 2005, \$1.5 million was drawn on the revolving credit facility.

Debt Covenants

Prism's credit agreement includes three covenants: current ratio, fixed charge coverage ratio and total liabilities to effective equity ratio all of which must be met quarterly. At the end of each quarter, the Company was in compliance with all of the terms of its credit agreement. Prism also expects to remain compliant with its debt covenants based on its current internal forecasts.

The credit agreement is guaranteed by Prism and each existing and future subsidiary, and is secured by all of the assets of Prism and each guarantor.

The Company believes that it will be able to meet its anticipated debt repayment and capital expenditure and working capital requirements for the foreseeable future with its current funds, as well as from its operations and available credit under existing credit facilities. Prism believes that outside sources for additional debt and equity financing will, if needed, be available to finance debt repayment, expansion projects and any acquisition. The form of any financing will vary depending on prevailing market and other conditions.

CONTRACTUAL OBLIGATIONS

As at November 30, 2005, the Company had contractual obligations that require future payments as follows:

	Payments due by period (in thousands of Canadian dollars)							
	2006	2007	2008	2009	2010	thereafter	Total	
Convertible debentures	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 11,000	\$ 11,000	
Notes payable	374	374	296	61	45	4,638	5,788	
Leases	1,097	765	606	482	440	621	4,011	
Total contractual obligations	\$ 1,471	\$ 1,139	\$ 902	\$ 543	\$ 485	\$ 16,259	\$ 20,799	

Prism does not have any off balance sheet financing activities. All of the Company's debt and contractual obligations are discussed in Notes 9, 10 and 14 to the consolidated financial statements.

During 2005, the Company received \$0.8 million (\$0.5 million after tax) representing the first installment of a \$1.5 million government grant from the Welsh Assembly Government in the United Kingdom. The grant was provided for the creation and retention of jobs and is to be received over a minimum of three years, in three installments, subject to fulfilling minimum capital expenditure and employment targets in the region. The Welsh Assembly Government may at any time, both prior to and after any or all grant monies have been paid, require repayment if the number of jobs falls below the job targets at any time during the period beginning on the date immediately after the date of the final payment of grant and ending 2 years later or ending 5 years after the date of the first grant, whichever is longer.

During the year, the Company leased facilities at market rates from the former owners of the Freeway and Care Free who are now employees and shareholders of the Company following the acquisitions.

CAPITAL STOCK AND DIVIDENDS

The authorized capital stock of the Company consists of an unlimited number of common shares and an unlimited number of preference shares. The Company's Board of Directors has not declared dividends in either 2005 or 2004.

At November 30, 2005, the Company had one stock-based compensation plan pursuant to which the Company may grant options to employees, officers and directors of the Company for up to 650,000 common shares. Please refer to note 11 to the consolidated financial statements for more details.

	#	\$
Issued and outstanding February 9, 2006:		
Unlimited class A shares , non-voting, redeemable, non-cumulative preferential dividends as determined from time to time, equal to 80% of stated capital, multiplied by the Canadian Imperial Bank of Commerce's prime rate	—	—
Unlimited common shares	5,890,156	9,280,147
Possible conversions:		
Convertible debenture , \$11 million, 8% maturing August 31, 2011, convertible into common shares at the option of the holder at \$3.75 per share.	2,933,333	11,000,000
Incentive stock option plan , See note 11 to the financial statements for details regarding vesting and price.	508,672	1,646,912
Fully diluted , assuming all options and debentures are exercised.	9,332,161	21,927,059

RELATED PARTY TRANSACTIONS

The acquisition of Tri-Care Developments, a business owned by C. Ecroyd, and the acquisition of Freeway Healthcare, a business jointly-owned by C. Ecroyd and P. Rogers, was completed on September 17, 2004 [note 3]. As at November 30, 2005 the Company has accrued interest payable to C. Ecroyd of \$44,744 [2004 – 42,350]. As at November 30 2005 the Company has accrued interest payable to C. Ecroyd and P. Rogers of \$87,314 [2004 – 37,502]

Subsequent to the acquisition, C. Ecroyd and P. Rogers were each appointed to the position of Managing Director for a division of the Company. Additionally, C. Ecroyd was elected to the Board of Directors of the Company.

The Company leases property from C. Ecroyd. The lease requires monthly payments of \$18,777 and expires in 2013. The rent charged during 2005 was \$249,075 [2004 - \$42,038]. The Company leases property from C. Ecroyd and P. Rogers. The lease requires monthly payments of \$10,184 and expires in 2009. The rent charged during 2005 was \$135,093 [2004 - \$29,510]. The Company leases property from P. Ecroyd. The lease requires monthly payments of \$6,436 and the lease is a month to month lease. The rent charged during 2005 was \$85,376 [2004 - nil]

In 2005, the Company received services from P. Ecroyd totaling \$99,815 [2004 - \$26,332].

All the above transactions were at arms length and under normal commercial terms.

Following the acquisition of Tri-Care Developments the Company collected monies in respect of debtors still owned by C. Ecroyd. Additionally, monies owed to the Company in respect of debtors were paid directly to C. Ecroyd. At November 30, 2005 the amount due from C. Ecroyd was \$105,861 [2004 - \$359,931]

Following the acquisition of Freeway Healthcare the Company collected monies in respect of debtors still owned by C. Ecroyd and P. Rogers. Additionally, monies owed to the Company in respect of debtors were paid directly to C. Ecroyd and P. Rogers. At November 30, 2005 the amount due from C. Ecroyd and P. Rogers was \$44,141 [2004 – 96,625]

Included in other creditors at November 30, 2004 is \$1,123,500 payable to C. Ecroyd in respect of inventory purchases.

RISK FACTORS

Prism is subject to a number of risks and uncertainties that could significantly affect the Company's financial condition and performance. These risks may increase as the business grows, and acquisitions occur. A comprehensive planning process exists to identify risks and minimize them wherever possible. Key risks include:

Highly Competitive Environment

The markets in which we compete are very competitive. Larger companies with greater resources and smaller companies with special relationships all are effective competitors. All manufacturing competitors' products have similar features to our core products and customers are receptive to low price offers. We mitigate this risk by providing superior services either directly or through a well-trained dealer/distributor network in all markets served. However, the introduction of new products with superior, unique features or the entry of new distributors with superior customer relationships could have a material adverse effect on our business results and financial condition.

Reliance on Key Employees

The Company's current and future success is dependent on the continued presence and quality of our key employees. Given the emerging nature of our segment of the durable medical products market, it is hard to find, hire and retain experienced employees who share our passion for service and knowledge. Prism invest substantial time and money in training talented personnel in the specialized functions that must be performed to make our businesses successful. It is not always possible to replace personnel who leave on a timely basis. The relatively small size of our operating subsidiaries makes it difficult and very expensive to have a totally effective succession plan in place for all key employees. We pay particular attention to the selection process, training programs and general well being of all our employees and in particular key employees. Cross training and internal growth in the business have allowed effective succession planning to be largely in place at this time.

Reliance on Key Suppliers

There are a small number of suppliers who Prism depend upon, without a second source of supply, for a component or a finished good ready for distribution. If supply were interrupted for a three to six month period it could cause an interruption in supply of products to our customers. A lengthy interruption in supply could materially harm customer relationships and the financial performance and condition of the business. The recent acquisition of a ceiling hoist manufacturer with facilities in North Wales has largely mitigated this risk in our core product line. In the judgment of management, the risk for distributed products is not material as alternate suppliers could be found and current relationships are excellent.

Health and Safety and Product Related Regulations

The Company is subject to a variety of laws, rules and regulations relating to our work environment and the products we manufacture. These regulations affect the health and safety of our employees and the manufacture, installation, use and maintenance of our products, particularly our core products used to move and handle people. The Company believes we

comply with all these laws, rules and regulations in all material respects. We regularly satisfy ourselves of this by the use and maintenance of ISO processes and procedures in all our main facilities pursuant to our ISO qualification. Qualified third parties and management regularly evaluate and monitor the processes and procedures used to achieve compliance and the adherence to all reporting and documentation procedures required by those rules and regulations. Shortfalls and omissions are promptly corrected.

The failure to comply with present or future regulations could result in legal claims, fines, suspension of production, a cessation of operations or product recalls.

A Failure in Product or Service Quality

The processes and procedures just previously described are all focused on consistently making a quality product and, where applicable, installing it in a way which ensures safe use for an extended time period. It is possible because of a quality control failure that our installed product may malfunction in a severe enough fashion that the caregiver and/or end user is injured, even fatally. This possibility is what drives all of us to use our ISO-based systems, our quality control procedures and quality conscious trained personnel to minimize risk. We carry adequate levels of insurance which somewhat mitigate the financial risks. However, the real risk is to our reputation and ultimately the carrying value of our goodwill.

Senior management focuses all employees on consistent compliance with quality processes and on the creation and maintenance of a value system that encourages as job one, quality in all we do.

Investments and Acquisitions

The Company may in future make strategic investments or acquisitions or may enter into joint ventures with other companies. Such transactions may entail risks including the inability to successfully integrate businesses; the inability to realize synergies or other value associated with such transactions; the diversion of management's attention and disruption of ongoing business; and the inability to retain key personnel. In addition, future investments or acquisitions may result in the issuance of additional equity or debt securities, borrowings, and significant one-time costs and write-offs. Any failure to avoid such risks could have a material adverse effect on our business, results and financial condition.

Information Systems

The Company's business is growing rapidly and becoming more complex, resulting in new information and computer system capacity requirements. Management regularly reviews the system requirements in light of the strategic plans and continues to make investments in both hardware and software.

Government Funding

In any of Prism's main markets governments are a major provider of the funds, either directly or indirectly, that pay for our products and services. Changes in government policies that reduce funding, or specify other products to the exclusion of our own, or defer funding could negatively affect the financial performance and condition of our business. Most governments, facing the increasing demands for medical services from an aging population, are already financially restrained in healthcare expenditures. However, based on our current experience the Company believe that governments will continue to focus on and invest in ways to save the system money.

Foreign Currency

The Company's business activities are conducted in several currencies – Canadian dollars and US dollars for the North American operations and Euros and Sterling for the UK operations. Since the UK and North American operations conduct business principally in their respective local currencies, the exposure to foreign currency gains and losses is not significant. Foreign currency exposure is monitored by management. While management does not purchase any derivative instruments for speculative purposes, management will engage in foreign currency hedging activities when appropriate.

Translation gains and losses related to the carrying value of foreign operations are deferred and included in the foreign exchange translation adjustment account in the shareholders' equity. As of November 30, 2005, the balance in the account was a \$2.4 million loss compared to a \$0.5 million loss in 2004.

As the foreign operations become more significant in terms of sales and profits, reported results in Canadian Dollars are impacted by foreign currency movements.

Interest Rates

Prism's long term debt consisting of convertible debentures and promissory notes bears interest at fixed rates. Should variable interest rates decline, interest paid by Prism will remain at a constant rate.

Disclosure Controls and Procedures

Management has ensured that there are disclosure controls and procedures that provide reasonable assurance that material information relating to the Company is disclosed on a timely basis, particularly, information relevant to the period in which annual filings are being prepared. Management believes these disclosure controls and procedures have been effective during the fiscal year ended November 30, 2005.

OUTLOOK

Prism expects growth in profitability and return on shareholders' equity to outpace sales growth in 2006. We believe that performance will be positively affected by a continued and more orderly Canadian institutional demand for our products, improved manufacturing efficiencies, and revenues and profits from new product introductions. Through the addition of more distributors, both as independents and by strategic accretive acquisition, we hope to achieve a gradual growth in UK and US service and institutional profits.

The demand for our core products and services, in management's estimate, continues to experience organic growth at different rates in the geographic markets in which we participate. While government funding for our products is a significant sales driver and may vary quarter to quarter or even over longer periods, we believe that the long term trend continues to be favourable.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of the Company's Consolidated Financial Statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the dates of the financial statements and the reported amounts of revenue and expenses during the reporting periods. These estimates form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. By their nature, estimates are subject to an inherent degree of uncertainty. Actual results that differ from these estimates could have a significant adverse effect on operating results and financial position. The following significant accounting estimates are considered critical in that they involve a higher degree of judgment and complexity than others.

The Company's significant accounting policies are included in Note 1 to the consolidated financial statements. We believe the following critical accounting policies affect the more significant judgments and estimates used in the preparation of the consolidated financial statements.

Allowance for Uncollectability of Accounts Receivable and Revenue Adjustments

The Company provides goods and services to its customers primarily on credit and provides an allowance for uncollectability of accounts receivable to cover reasonably estimated losses from the inability of customers to make required payments.

Provisions are assessed utilizing a combination of techniques. The Company specifically reviews its larger accounts and assesses a customer's ability to make payments to the Company. Based on this review, specific reserves for such accounts are recorded against amounts due to reduce accounts receivable to the amount reasonably believed to be collectable. A number of factors are considered in evaluating the adequacy of the provision for uncollectability of accounts receivable, including: historical collections experience; changes in customer payment terms; economic and industry trends expected to prevail prior to settlement; the creditworthiness and collection status of the account; and any other specific factors known to management relating to the accounts.

Management believes the recorded allowance is sufficient and appropriate based on the exposures identified and historical experience. Should the financial condition of the Company's customers deteriorate, adversely affecting their ability to make payments to the Company, additional allowances may be required and could affect operating results in future periods. The allowance is netted against accounts receivable.

Useful Life of Capital and Intangible Assets

The estimated useful life of capital and intangible assets is used to determine depreciation and amortization expense. An asset's useful life is estimated when the asset is acquired. The estimate is based upon past experience with similar assets, taking into account expected technological changes, prospective economic utilization and physical condition of the assets concerned. A reassessment of the economic lives of these assets is conducted when events or changes in circumstances indicate that their useful life may not be as long as originally anticipated. When factors indicate network assets may not be useful for as long as anticipated, the asset's estimated useful life may be shortened. This could result in a higher depreciation and amortization expense in future periods and/or an impairment charge to reflect the write-down in value of the asset.

Impairment

The impairment of long-lived assets is assessed when events or changes in circumstances indicate that the Company may not be able to recover their carrying value. Factors considered important which would result in an impairment review include the following:

- significant underperformance relative to expected historical or projected future operating results;
- significant changes in the manner of the Company's use of its assets or the strategy of the overall business; and
- significant negative industry or economic trends.

Impairment of goodwill is assessed annually and when events or changes in circumstances indicate that goodwill might be impaired. In accordance with the CICA recommendations with regard to Goodwill and Other Intangible Assets, the annual goodwill impairment test involves a two step approach: 1) compare the fair value of a reporting unit with its carrying amount, including goodwill, to identify potential impairment. If the fair value of a reporting unit exceeds its carrying

amount, goodwill is not impaired and the second step of the impairment test is unnecessary; and 2) if the carrying amount of a reporting unit exceeds its fair value, the fair value of the reporting unit's goodwill should be compared with its carrying amount to measure the impairment loss, if any.

The fair value of a reporting unit is the amount at which the unit could be purchased or sold between willing parties. Fair value is determined by using a present value of future cash flows approach

In 2005 and 2004 the results of step one of the annual impairment test indicated that there was no potential impairment to goodwill as at November 30, 2005 and November 30, 2004. As a result, the Company was not required to perform step two of the annual impairment test.

Accounting for Income Taxes

The Company is required to estimate the amount of tax payable for the current year and the future income tax assets and liabilities recorded in the accounts for future tax consequences of events that have been reflected in its financial statements or tax returns for each taxing jurisdiction in which it operates. Significant management judgment is required to assess the timing and probability of the ultimate tax impact. The Company records valuation allowances on future tax assets to reflect the expected realizable future tax benefits. Actual income taxes could vary from these estimates due to future changes in income tax law, changes in the jurisdictions in which the Company operates, the inability to generate sufficient future taxable income or unpredicted results from potential examinations or determinations of each year's liability by taxing authorities.

Valuation allowances primarily relate to potential future tax assets arising from accounting depreciation claimed in excess of tax depreciation and tax losses carried forward in the various jurisdictions in which the Company operates. Management must assess both positive and negative evidence when determining whether it is more likely than not that future tax assets will be recoverable in future periods; such assessment is required on a jurisdiction by jurisdiction basis. Based on this assessment, a valuation allowance must be established for the amount of the deferred tax assets that are determined not to be realizable. Realization is based on the Company's ability to generate sufficient future taxable income. Changes in material assumptions can occur from period to period due to the aging of prior year's losses, the cumulative effect of current period taxable income and other sources of positive and negative evidence.

Contingencies

During the ordinary course of business activities, the Company may be contingently liable for litigation and named as a party to claims. Management believes that adequate provisions have been made in the accounts where required. Although it is not possible to estimate the extent of potential costs and losses, if any, management believes that the ultimate resolution of such contingencies will not have an adverse effect on the financial position of the Company.

RECENT ACCOUNTING DEVELOPMENTS

EIC-155, The Effect of Contingently Convertible Instruments on Diluted Earnings per Share

Under EIC-155, the effect of contingently convertible instruments should be included in diluted earnings per share (if dilutive) regardless of whether the market price trigger has been met. This Abstract will apply retroactively with restatement of prior period diluted earnings per share, to all financial statements for interim periods and fiscal years beginning on or after October 1, 2005.

CHANGES IN ACCOUNTING POLICIES

Consolidation of Variable Interest Entities

The Canadian Institute of Chartered Accountants ["CICA"] Accounting Guideline Consolidation of Variable Interest Entities ["AcG-15"], applies to all fiscal years and interim periods beginning on or after November 1, 2004. The Company has reviewed the impact of AcG-15 with respect to a Management Services Agreement between the Company and Lift and Transfer Solutions LLC ["LTSU"] and has concluded that LTSU was a variable interest entity subject to consolidation starting December 1, 2004. In accordance with AcG-15, the Company has treated the initial application of the guideline as a change in accounting policy in accordance with CICA Handbook Section 1506 and has elected to provide retroactive application of the guideline with no restatement of prior periods.

The impact of applying AcG-15 to fiscal 2004 would be an increase to current assets of \$158,158, current liabilities of \$56,266, a restatement of the current portion of notes receivable from \$1,263,835 to \$44,209, retained earnings from \$5,303,233 to \$4,392,640 and net income from \$1,172,836 to \$262,243 and basic earnings per share of \$0.28 [\$0.25 fully diluted] to \$0.06 [\$0.06 fully diluted].

On December 1, 2004, the Company acquired LTSU for \$1.00 and by virtue of having accounted for LTSU as a variable interest entity the acquired assets and assumed liabilities are recorded in the accounts of the Company at their fair values. Accordingly, the acquisition has not been accounted for using the purchase method

Revenue Recognition

In December 2003, the Emerging Issues Committee released EIC-141, "Revenue Recognition," and EIC-142, "Revenue Arrangements with Multiple Deliverables," which were effective on a prospective basis for the 2005 fiscal year. EIC-141 incorporates the principles and guidance under U.S. GAAP and EIC-142 addresses certain aspects of the accounting by a vendor for arrangements under which it will perform multiple revenue generating activities. The adoption of this standard has not had an impact on the consolidated financial statements.