

Consolidated Financial Statements

Prism Medical Ltd.

November 30, 2006

AUDITORS' REPORT

To the Shareholders of
Prism Medical Ltd.

We have audited the consolidated balance sheet of **Prism Medical Ltd.** as at November 30, 2006 and the consolidated statement of income and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at November 30, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The consolidated financial statements as at November 30, 2005 and for the year then ended were audited by other auditors who expressed an opinion without reservation on those statements in their report dated March 24, 2006.

Deloitte & Touche LLP

Mississauga, Canada,
January 12, 2007

Chartered Accountants

Prism Medical Ltd.

CONSOLIDATED BALANCE SHEETS

As at November 30

	2006	2005
	\$	\$
ASSETS		
Current		
Cash and cash equivalents	-	692,228
Accounts receivable	8,948,976	8,099,773
Inventories	8,427,184	8,198,722
Prepaid expenses	325,489	224,654
Other receivables	299,582	136,570
Income taxes recoverable <i>[note 14]</i>	741,042	756,540
Current portion of notes receivable	-	25,640
Total current assets	18,742,273	18,134,127
Property, plant and equipment, net <i>[note 6]</i>	2,757,504	2,591,252
Deferred charges, net <i>[note 7]</i>	2,022,018	2,219,651
Goodwill <i>[note 8]</i>	13,739,258	12,608,813
Intangible assets <i>[note 9]</i>	383,568	-
Future income tax asset <i>[note 14]</i>	3,578,720	2,986,912
	41,223,341	38,540,755
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Bank indebtedness <i>[note 10]</i>	390,909	1,453,703
Accounts payable and accrued liabilities	6,534,463	6,270,587
Current portion of long-term debt <i>[note 11]</i>	1,365,713	405,651
Total current liabilities	8,291,085	8,129,941
Long-term debt <i>[note 11]</i>	14,323,315	15,540,268
Future income tax liabilities <i>[note 14]</i>	416,101	478,124
Total liabilities	23,030,501	24,148,333
Total shareholders' equity <i>[note 12]</i>	18,192,840	14,392,422
	41,223,341	38,540,755

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

On behalf of the Board:

Director



Director



Prism Medical Ltd.

**CONSOLIDATED STATEMENTS OF INCOME
AND RETAINED EARNINGS**

Years ended November 30

	2006	2005
	\$	\$
Sales	42,078,317	46,877,161
Cost of goods sold	25,378,257	28,816,351
Gross profit	16,700,060	18,060,810
Expenses		
Selling, general and administrative	11,665,592	12,020,777
Loss (gain) on foreign exchange	38,377	(57,397)
Severance and termination	245,799	228,693
Research and development	100,485	158,349
Stock-based compensation <i>[note 12]</i>	127,884	227,741
Amortization	925,710	1,034,534
Interest	210,561	46,986
Interest on long-term debt	1,357,569	1,522,015
Income before income taxes	2,028,083	2,879,112
Income taxes <i>[note 14]</i>		
Current	308,851	910,593
Future	71,172	87,228
	380,023	997,821
Net income for the year	1,648,060	1,881,291
Retained earnings, beginning of year	6,114,653	4,233,362
Premium on share buy-back <i>[note 20]</i>	(80,133)	-
Retained earnings, end of year	7,682,580	6,114,653
Earnings per share <i>[note 12]</i>		
Basic	\$0.28	\$0.35
Diluted	\$0.27	\$0.30

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

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

Years ended November 30

	2006	2005
	\$	\$
OPERATING ACTIVITIES		
Net income for the year	1,648,060	1,881,291
Add items not affecting cash		
Future income taxes	(383,828)	87,228
Amortization - cost of goods sold	597,959	460,650
Amortization - operating	674,534	765,935
Amortization – research and development	250,563	268,599
Stock-based compensation [note 12]	127,884	227,741
Interest accretion on convertible debt	159,216	159,216
	3,074,388	3,850,660
Net change in non-cash working capital balances related to operations [note 17]	(260,868)	(3,150,719)
Cash provided by operating activities	2,813,520	699,941
INVESTING ACTIVITIES		
Deferred charges	(272,573)	(88,998)
Intangible assets	(40,165)	-
Purchase of property, plant and equipment	(949,108)	(1,081,571)
Acquisition of subsidiary [note 4]	(435,095)	(1,840,800)
Decrease in notes receivable	25,640	42,668
Cash used in investing activities	(1,671,301)	(2,968,701)
FINANCING ACTIVITIES		
(Decrease) increase in bank indebtedness	(1,062,794)	1,398,197
Deferred financing charges	(72,474)	-
Repayment of long-term debt	(903,761)	(2,088,600)
Cancellation of share capital [notes 12 & 20]	(231,027)	-
Issuance of share capital [note 12]	375,750	1,590,605
Cash (used in) provided by financing activities	(1,894,306)	900,202
Effect of exchange rate changes on cash and cash equivalents	59,859	(193,621)
Net decrease in cash and cash equivalents during the year	(692,228)	(1,562,179)
Cash and cash equivalents, beginning of year	692,228	2,254,407
Cash and cash equivalents, end of year	-	692,228
Supplemental cash flow information		
Interest paid	1,433,848	1,302,224
Income taxes paid	1,251,888	910,506

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

Prism Medical Ltd.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

November 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. The significant accounting policies followed by Prism Medical Ltd. [the "Company"] are summarized as follows:

Principles of consolidation

These consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly owned. All inter-company balances, transactions and profits have been eliminated.

Cash and cash equivalents

Cash and cash equivalents include cash in interest-bearing accounts and term deposits with original maturities of less than three months at the date the term deposit was acquired.

Inventories

Raw materials are valued at the lower of cost and replacement cost. Work-in-process and finished goods are valued at the lower of cost or net realizable value. Cost is determined on a first-in first-out basis. Cost for finished goods and work-in-process includes materials, direct labour and an allocation of overheads.

Revenue recognition

Revenue is comprised of product sales and of service revenue earned from installation services. Revenue from product sales is recognized when persuasive evidence of an assignment exists, delivery has occurred and the title to the goods is transferred to customers, the selling price is fixed or determinable and collectibility is reasonably assured.

Service revenue is recognized as services are performed.

At the time the Company recognizes revenue it records a provision for future anticipated warranty costs associated with the product of service.

Government assistance

The Company makes periodic applications for financial contribution under available government incentive programs. Government contributions are recorded as a reduction of expenses or capital assets depending on the nature of the contribution.

Prism Medical Ltd.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

November 30, 2006

Property, plant and equipment

Property, plant and equipment is recorded at cost less accumulated amortization. Amortization is provided using the straight-line method in amounts sufficient to amortize the cost of the assets over the estimated useful lives indicated:

Office, computer equipment and furniture	1 - 5 years
Manufacturing equipment	5 - 10 years
Vehicles	3 - 4 years
Leasehold improvements	Lease term

Amortization of the asset begins when it is placed in service. Assets acquired under capital leases are amortized using the same rates as Company-owned assets.

Goodwill

Goodwill represents the excess of the purchase price of acquired businesses over the fair value of the identifiable net assets acquired.

Goodwill is not subject to amortization but is subject to an annual review for impairment or whenever events or circumstances indicate that the fair value of the Company's reporting units may be below its carrying value. Goodwill impairment is assessed based on a comparison of the fair value of an individual reporting unit to the underlying carrying value of the reporting unit's net assets including goodwill. On an annual basis, estimated future undiscounted cash flows associated with the underlying business operations are compared to the carrying amount of goodwill to determine if a write-down is necessary. If such an assessment indicates that the undiscounted future cash flows will not be recovered, the carrying amount is reduced to the estimated fair value.

Intangible assets

Intangible assets are amortized on a straight-line basis over a period of ten years.

Impairment of long-lived assets

The Company performs an annual impairment test on all intangible assets, and more frequently if events or changes in circumstances indicate that the carrying value may not be recoverable. The valuation of intangible assets is based on the amount of future discounted net cash flows that these assets are estimated to generate. Revenue and expense projections are based on management's estimates, including estimates of current and future industry conditions. A significant change to these assumptions could impact the estimated useful lives or valuation of intangible assets, resulting in a change to amortization expense and impairment charges.

Prism Medical Ltd.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

November 30, 2006

The Company assesses long-lived assets for recoverability whenever indicators of impairment exist. If the carrying value of the asset exceeds the estimated undiscounted cash flows from use of the asset, an impairment loss is recognized. Impairment losses are measured as the amount by which the asset's carrying value exceeds its fair value. Fair value is based on discounted cash flows.

Deferred charges

Expenditures are deferred when incurred to develop new products which have proven technical feasibility and a clearly defined future market exists. Deferred charges are reduced by realized investment tax credits and government grants. Straight-line amortization over a maximum period of four years begins when sales start.

Acquisition and due diligence costs are deferred until such time as investments are completed. If they relate to the acquisition of a subsidiary they are allocated to the underlying assets on acquisition. If the acquisition is not made they are written off.

Direct costs related to the securing of long-term debt are deferred and amortized on a straight-line basis over the term of the loans or debt facilities to which they relate.

Pre-operating costs associated with opening new geographic territories were deferred and charged to income on a straight-line basis over three to four years once revenues begin in the new region.

Income taxes

The Company follows the liability method of income tax allocation. Under this method, future tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and are measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse.

Convertible debentures

On issuance of debentures convertible into common shares of the Company at the holders' option, the fair value of the holders' conversion option is reflected as "Other paid-in-capital". The Company's obligation to debenture holders is accreted to its fair value using the straight-line interest method over the term of the debenture.

If the holders exercise their conversion option, common shares issued on conversion will be recorded at an amount equal to the aggregate carrying value of the liability.

Foreign exchange translation

Monetary assets and liabilities of the Company denominated in foreign currencies are translated at the year-end exchange rates and the resulting exchange gains or losses are recognized in income in the current period. Sales and expenses denominated in foreign currencies are translated at the average rate in the month of transaction.

Prism Medical Ltd.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

November 30, 2006

The Company's operations outside of Canada are considered self-sustaining and accordingly their accounts are translated into Canadian dollars using the year-end exchange rates and sales and expenses are translated at average rates during the year. Exchange gains or losses on translation of the Company's net equity investment in these operations are deferred as a separate component of shareholders' equity.

The appropriate amounts of exchange gains or losses accumulated in the separate component of shareholders' equity are reflected in income when there is a reduction, as a result of capital transactions, in the Company's net investment in the operations that gave rise to such exchange gains and losses.

Earnings per share

Basic earnings per common share, is computed by dividing net income by the weighted average number of common shares outstanding during the year. Earnings per share reflects the assumed conversion of all securities using the treasury stock method for stock options and the if converted method for convertible debentures.

Under the treasury stock method:

- the exercise of options is assumed to be the later of the beginning of the year or the time of issuance. The proceeds from the exercise of options, plus the unamortized compensation expense for options granted after December 1, 2003, are assumed to be used to purchase common shares at the average price during the year; and
- The difference between the number of shares assumed issued and the number of shares assumed purchased is included in the denominator of the diluted earnings per share computation.

Under the if converted method:

- the convertible debentures are assumed to be converted at the later of the beginning of the year or the time of issuance, and net income is increased by related interest.

Stock-based compensation plan

Stock options granted after December 1, 2003 are accounted for under the fair value method. Under this method, compensation expense is measured at fair value at the grant date using the Black-Scholes option pricing model and recognized over the vesting period with a corresponding credit to contributed surplus. On the exercise of stock options, consideration received and the accumulated contributed surplus amount is credited to share capital.

Use of estimates

The preparation of the 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

Prism Medical Ltd.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

November 30, 2006

that are not readily apparent from other sources. By their nature, estimates are subject to an inherent degree of uncertainty, including such accounts as doubtful accounts, obsolescence, warranties and income taxes. Actual results that differ from these estimates could have a significant adverse effect on operating results and financial position.

2. CHANGE IN ACCOUNTING POLICY

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

The Company adopted release 155 of the Emerging Issues Committee of the Canadian Institute of Chartered Accountants ["EIC-155"]. 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 release when applied retroactively to 2005 does not change the previously reported diluted earnings per share.

3. CHANGE IN ACCOUNTING ESTIMATE

The Company has operations in countries that have differing tax laws and rates. The provision for income taxes is based on a number of estimates and assumptions made by management including its understanding of domestic and international tax rules. Advice is also sought from professional tax advisors.

The annual tax provision made in the fourth quarter of 2005 included an additional provision of \$569,000 for potential tax liabilities related to the deductibility of interest and foreign exchange losses arising from inter-company loans made between the Company and its subsidiaries.

During the 3rd quarter of 2006, the Company, in conjunction with its tax advisors, completed a study to determine the extent of the tax liability that may exist in respect to its 2005 and 2006 fiscal years. Based on the results of the study the Company reversed \$479,000 of the additional year end provision during the third quarter of 2006.

Prism Medical Ltd.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

November 30, 2006

4. ACQUISITIONS

2006 Acquisition ErgoSafe Products, LLC

On June 6, 2006, the Company acquired ErgoSafe Products, LLC ["ErgoSafe"], a privately owned United States based manufacturer and distributor of moving and handling products for the mobility impaired. The shares were acquired for \$765,395.

The purchase price was satisfied as follows:

	\$
Cash	392,319
Transaction costs	42,776
Value of common shares issued	330,300
Total purchase consideration	765,395

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

	\$
Current assets	211,353
Capital assets	2,408
Intangible assets	362,544
Goodwill	260,720
Liabilities assumed	(71,630)
Total purchase consideration	765,395

The value of the 88,080 common shares issued was determined based on the average market price of the Company's common shares over the three-day period before the terms of the acquisition were announced on June 6, 2006.

The Company's consolidated results include the results of ErgoSafe from June 7, 2006.

A former minority indirect shareholder (9.9 percent) of ErgoSafe was a senior officer of a subsidiary of the Company at the time of acquisition and was an insider to this transaction. He received, at closing, approximately \$73,000 of the total transaction proceeds, 8,720 common shares of the Company and will be entitled to share in an earn-out.

The annual earn-out will be payable and calculated at 20 percent of the excess of the annual gross profit of the ErgoSafe products over the annual gross profit benchmark for the period up to and including December 31, 2011.

Prism Medical Ltd.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

November 30, 2006

2005 Acquisition

Carefree Lifting Limited

On June 27, 2005, the Company purchased Carefree Lifting Limited ["Carefree"], a privately owned U.K. based distributor of moving and handling products for the mobility impaired. The shares were acquired for \$2,855,664. The purchase price was satisfied as follows:

	\$
Cash	1,840,800
Vendor take-back promissory note [note 11]	338,265
Value of common shares issued [note 12]	676,489
Total purchase consideration	2,855,554

The allocation of the purchase price for the acquisition, based on managements 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

The value of the 135,569 common shares issued was determined based on the average market price of the Company's common shares over the three-day period before the terms of the acquisition were announced.

The former owner-managers of the acquired business have entered into employment contracts with the Company.

The Company's 2005 consolidated results include the acquired business from June 2005.

5. GOVERNMENTAL ASSISTANCE

During 2005, the Company received \$772,000 (£362,500) being the first installment of a \$1,604,200 (£725,000) 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. During 2005, \$772,000 was recorded as a reduction of expenses.

Prism Medical Ltd.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

November 30, 2006

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 two years later or ending five years after the date of the first grant, whichever is longer.

As at November 30, 2006 the Company continues to meet the targets established for the first installment.

6. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following:

	2006		Net book value \$
	Cost \$	Accumulated amortization \$	
Manufacturing equipment	2,847,531	1,122,778	1,724,753
Office, computer equipment and furniture	2,363,719	1,823,294	540,425
Vehicles	179,712	66,574	113,138
Leasehold improvements	1,007,720	628,532	379,188
	6,398,682	3,641,178	2,757,504
	2005		Net book value \$
	Cost \$	Accumulated amortization \$	
Manufacturing equipment	2,208,391	720,013	1,488,378
Office, computer equipment and furniture	1,670,812	1,024,272	646,540
Vehicles	119,149	16,761	102,388
Leasehold improvements	799,551	445,605	353,946
	4,797,903	2,206,651	2,591,252

The above amounts include \$277,480 [2005 - \$261,510] of equipment under capital lease and accumulated amortization of \$194,711 [2005 - \$179,232] related thereto.

Prism Medical Ltd.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

November 30, 2006

7. DEFERRED CHARGES

Deferred charges consist of the following:

	2006		Net
	Cost	Accumulated	book
	\$	amortization	value
		\$	\$
Product development expenditures	2,430,454	1,399,850	1,030,604
Convertible debenture costs	1,457,198	510,285	946,913
Acquisition and start-up costs	50,423	24,041	26,382
Financing fees	207,694	189,575	18,119
	4,145,769	2,123,751	2,022,018

	2005		Net
	Cost	Accumulated	book
	\$	amortization	value
		\$	\$
Product development expenditures	1,943,887	1,090,689	853,198
Convertible debenture costs	1,457,198	310,934	1,146,264
Acquisition and start-up costs	264,375	44,186	220,189
Financing fees	135,220	135,220	-
	3,800,680	1,581,029	2,219,651

In fiscal 2006, amortization of deferred charges was \$542,722 [2005 - \$663,906].

8. GOODWILL

Goodwill consists of the following:

	2006	2005
	\$	\$
Balance, beginning of year	12,608,813	11,214,331
Acquired during the year [note 4]	260,720	2,110,712
Adjustment [note 11]	-	412,527
Foreign currency impact	869,725	(1,128,757)
Balance, end of year	13,739,258	12,608,813

During 2005, goodwill was increased by \$412,527 to reflect adjustments to the purchase equation for the 2004 acquisition. [note 11]

Prism Medical Ltd.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

November 30, 2006

9. INTANGIBLE ASSETS

Intangible assets consist of the following:

	2006		Net
	Cost	Accumulated	book
	\$	amortization	value
		\$	\$
Customer database	333,766	16,688	317,078
Patents	40,165	6,813	33,352
Trademarks	34,881	1,743	33,138
	408,812	25,244	383,568

In 2005, there were no intangible assets.

10. BANK INDEBTEDNESS

During the year the Company secured a new and larger overdraft credit facility of \$10,000,000. The maximum drawing on the credit facility is determined by the lesser of the maximum facility or the aggregate of 75% of qualifying trade accounts receivable and 50% of qualifying inventory. The Company also has a new \$10,000,000 term loan facility for acquisitions.

The facilities are collateralized by general security agreements providing a first charge over all assets of the Company and by inter-company guarantees.

Interest charged on the overdraft credit facility is 0.5% over bank prime or base rate. Interest charged on the term credit acquisition facility is 1% over bank prime.

The available amounts under the facilities at November 30, 2006 amounted to \$8,719,000.

Prism Medical Ltd.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

November 30, 2006

11. LONG-TERM DEBT

Long-term debt consists of the following:

	2006	2005
	\$	\$
Obligations under capital lease [a]	61,720	80,375
Promissory notes payable [b]	5,390,212	5,787,664
Convertible debentures [c]	10,237,096	10,077,880
	15,689,028	15,945,919
Less current portion	1,365,713	405,651
	14,323,315	15,540,268

[a] The obligations under capital lease bear interest at an interest rate of 15% [2005 - 11.0%] and are collateralized by the leased assets of the Company's subsidiaries.

[b] On September 17, 2004, \$5,854,030 of 7% secured promissory notes were issued in respect of the Freeway Healthcare and Tri-care Developments acquisitions. In 2005, subsequent to the acquisitions, \$686,819 of additional notes were issued in respect of the acquisitions. \$412,527 of the notes were accounted for as an increase in goodwill. One of the prior owners of each acquired business became a related party upon the acquisitions. Accordingly, the issuance of additional promissory notes is a related party transaction. Interest is accrued and paid quarterly beginning January 31, 2005. The notes shall be redeemed in quarterly installments beginning January 31, 2005. The minimum quarterly redemption was \$27,794 plus the greater of \$50,535 or 50% of "Profit" as defined in the promissory note instrument. Subsequent to November 30, 2006 the repayment terms were amended resulting in 16 quarterly payments beginning August 31, 2006 and ending August 31, 2010.

On June 27, 2005, \$338,265 (£150,000) of unsecured, non-interest bearing promissory notes were issued in respect of the Care Free acquisition. The notes shall be redeemed in quarterly installments of \$15,160 (£7,500) beginning October 1, 2005.

[c] In September 2004, the Company completed the private placement of an aggregate of \$11,000,000 of 8% convertible subordinated debentures with a term of 7 years. The debentures are convertible into common shares of the Company, at the holder's option, at a conversion price of \$3.75 per share, subject to customary anti-dilution adjustments, and are collateralized by a floating charge over all assets. The security ranks behind the security held by other senior lenders and behind the security granted to owner-managers of businesses acquired, in respect of promissory notes issued to them as part of the consideration for the acquisitions.

Directors, officers and other related parties purchased \$1,800,000 principal amount of these debentures.

Prism Medical Ltd.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

November 30, 2006

The debentures were issued in September 2004 at which time the fair value of the Company's obligation to make payments was \$9,885,495 and the fair value of the holders' conversion option was \$1,114,505. The straight-line rate of interest on the liability component is 10.5%.

Principal repayments of long-term debt, for the next five years, are as follows:

	2007	2008	2009	2010	2011	Total
	\$	\$	\$	\$	\$	\$
Capital leases	27,817	20,026	10,701	3,176	-	61,720
Promissory notes payable	1,337,896	1,427,289	1,336,015	1,289,012	-	5,390,212
Convertible debenture	-	-	-	-	11,000,000	11,000,000
	<u>1,365,713</u>	<u>1,447,315</u>	<u>1,346,716</u>	<u>1,292,188</u>	<u>11,000,000</u>	<u>16,451,932</u>

The future minimum capital lease payments are as follows:

	\$
<hr/>	
2006	
Total future minimum lease payments	71,564
Less imputed interest	9,844
Obligations under capital lease	61,720
Less current portion	27,817
	<u>33,903</u>

Interest on long-term debt amounted to \$1,357,569 [2005 - \$1,522,015].

Prism Medical Ltd.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

November 30, 2006

12. TOTAL SHAREHOLDERS' EQUITY

Shareholders' equity consists of the following:

	2006	2005
	\$	\$
Share capital	9,835,303	9,280,147
Other paid-in-capital [note 11]	1,114,505	1,114,505
Foreign exchange translation adjustment [note 13]	(861,975)	(2,411,427)
Contributed surplus	422,427	294,544
Retained earnings	7,682,580	6,114,653
Total shareholders' equity	18,192,840	14,392,422

The authorized and issued share capital consists of the following:

	2006	2005
	\$	\$
Authorized		
Unlimited Class A shares, non-voting, redeemable, non-cumulative preferential dividends as determined from time to time, equal to 80% of the stated capital, multiplied by the Canadian Imperial Bank of Commerce's prime rate		
Unlimited common shares		
Issued		
6,046,360 common shares [2005 - 5,890,156]	9,835,303	9,280,147

Shares issued

During fiscal 2006, the Company issued 159,024 [2005 – 182,732] common shares under its incentive stock option plan for proceeds of \$375,750 [2005 - \$329,619].

During fiscal 2006, 88,080 common shares were issued at \$3.75 per share as part of the purchase price consideration of the acquisition of ErgoSafe Products LLC.

During fiscal 2006, 90,900 common shares were purchased under the Normal Course Issuer Bid [Note 20] for an aggregate cost of \$231,027. For each share purchased for cancellation share capital was reduced by \$1.66. In aggregate share capital was reduced by \$150,894 [2005 – Nil].

During fiscal 2005, 135,569 common shares were issued at \$4.99 per share as part of the purchase price consideration of the acquisition of Care Free Lifting Limited.

Prism Medical Ltd.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

November 30, 2006

Incentive stock option plan

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

A summary of the Plan and changes during each of 2006 and 2005 are as follows:

	2006		2005	
	Shares	Weighted average exercise price	Shares	Weighted average exercise price
	#	\$	#	\$
Outstanding, beginning of year	508,672	3.49	417,404	1.97
Granted during the year	-	-	306,500	4.41
Exercised	(159,024)	2.36	(182,732)	1.80
Expired and forfeited during the year	(119,648)	3.16	(32,500)	2.10
Outstanding, end of year	230,000	4.45	508,672	3.49
Options exercisable at the year end	110,000	4.42	229,922	2.92

The following table summarizes information about options outstanding at November 30, 2006:

Range of exercise prices	Options outstanding		
	Number outstanding	Weighted average remaining contractual life	Weighted average exercise price
\$	#	[years]	\$
4.30	180,000	1.49	4.30
4.90	30,000	1.58	4.90
5.07	20,000	1.91	5.07
	230,000	1.54	4.45

Prism Medical Ltd.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

November 30, 2006

Range of exercise prices \$	Options exercisable	
	Number outstanding #	Weighted average exercise price \$
4.30	90,000	4.30
4.90	15,000	4.90
5.07	5,000	5.07
	110,000	4.42

The Company accounts for stock options granted after December 1, 2003 under the fair value method. During 2006, Nil [2005 – 306,500] stock options were granted and the Company recorded as compensation expense \$127,884 [2005 – \$227,741].

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

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

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

Prism Medical Ltd.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

November 30, 2006

Earnings per share

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

	2006 \$	2005 \$
Net income for the year	1,648,060	1,881,291
After-tax interest expense on convertible debentures	735,916	717,068
Adjusted net income for diluted earnings per share	2,383,976	2,598,359
Weighted average number of common shares outstanding	5,981,885	5,416,424
Effect of dilutive securities	2,937,813	3,329,166
Diluted weighted average number of shares outstanding	8,919,698	8,745,590
Earnings per share		
Basic	\$0.28	\$0.35
Diluted	\$0.27	\$0.30

Options to purchase 271,436 [2005 – 14,712] common shares were not included in the computation of diluted earnings per share because the options' exercise prices were greater than the average market price of the common shares.

13. FOREIGN EXCHANGE TRANSLATION ADJUSTMENT

Unrealized translation adjustments, which arise on the translation to Canadian dollars of assets and liabilities of the Company's self-sustaining foreign operations, resulted in an unrealized currency translation gain of \$1,549,452 for the year ended November 30, 2006 [2005 - loss of \$1,909,363]. The unrealized gain resulted primarily from the strengthening of the British pound against the Canadian dollar.

Prism Medical Ltd.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

November 30, 2006

14. INCOME TAXES

A reconciliation between the statutory and the effective income tax rates is provided below:

	2006 \$	2005 \$
Income before income taxes	2,028,084	2,879,112
Combined basic Canadian federal and provincial income tax rate	36.00%	36.00%
Income tax expense computed at statutory rate	730,110	1,036,480
Manufacturing and processing profits deduction	3,992	(14,908)
Intercompany debt restructuring	(88,226)	-
Effect of lower foreign taxes	(101,997)	(37,753)
Permanent differences	316,609	(60,279)
Stock option compensation	44,800	81,987
Reversal of 2005 tax provision	(479,000)	-
Reversal of tax loss carry-forward valuation reserve	(51,004)	-
Other	4,739	(7,706)
Provision for income taxes	380,023	997,821
Effective income tax rate	18.7%	34.7%

Future income tax assets are summarized as follows:

	2006 \$	2005 \$
Future income tax asset - long-term		
Goodwill deductible for tax	3,123,720	2,986,912
Long-term portion of tax benefited loss carry-forward	455,000	-
	3,578,720	2,986,912

Income taxes recoverable are comprised as follows:

	2006 \$	2005 \$
Taxable loss carry-forwards	865,878	789,096
Less: long-term portion of taxable loss carry-forward	455,000	-
Less: valuation reserve	-	51,004
	410,878	738,092
Taxes recoverable	330,164	18,448
	741,042	756,540

Prism Medical Ltd.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

November 30, 2006

Taxable loss carry-forwards expire as follows:

	\$
November 30, 2007	2,291
November 30, 2008	714
November 30, 2009	73,552
November 30, 2010	30,562
November 30, 2011	621,424
November 30, 2012	1,379,081
November 30, 2013	365,102
	<hr/> 2,472,726
Tax rate	35%
Taxable loss carry-forwards	<hr/> 865,878

The future income tax asset related to goodwill represents the undiscounted future tax savings associated with the tax deductible goodwill that arose on the 2004 acquisitions in the UK.

Future income tax liabilities are summarized as follows:

	2006	2005
	\$	\$
Future income tax liabilities - long-term		
Tax amortization taken in excess of book amortization	416,101	478,124
	<hr/>	<hr/>

We have operations in various countries having differing tax laws and rates. Our provision for income taxes is based on a number of estimates and assumptions made by management including our knowledge and understanding of domestic and international tax rules. The final outcome of any audits by taxation authorities may differ from the estimates and assumptions we have used and the results could result in a material effect on our consolidated income tax provision, financial condition and the results of operations for the period in which such determination is made.

Prism Medical Ltd.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

November 30, 2006

15. COMMITMENTS AND CONTINGENCIES

[a]

The Company has entered into lease agreements related to office premises, office equipment and vehicles. The minimum annual lease payments for the next five years and thereafter are as follows:

	\$
2007	1,019,652
2008	852,431
2009	687,947
2010	632,398
2011	459,356
Thereafter	349,512

[b]

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.

[c]

The Company also has warranty liabilities which provide for service on products sold. The expected future cost of these warranties has been provided for in accrued liabilities.

Prism Medical Ltd.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

November 30, 2006

16. INFORMATION BY INDUSTRY SEGMENT

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

Domestic and foreign operations consist of the following:

Geographic segments

	2006			
	USA	Canada	United Kingdom	Total
	\$	\$	\$	\$
Sales	3,357,651	13,449,868	25,270,798	42,078,317
Total assets	1,159,911	13,248,558	26,814,872	41,223,341
Goodwill	260,720	326,900	13,151,638	13,739,258

	2005			
	USA	Canada	United Kingdom	Total
	\$	\$	\$	\$
Sales	2,555,761	18,901,120	25,420,280	46,877,161
Total assets	244,414	12,032,367	26,263,974	38,540,755
Goodwill	-	326,900	12,281,913	12,608,813

Sales are attributed to countries based on the location of the sale.

17. CONSOLIDATED STATEMENTS OF CASH FLOWS

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

	2006	2005
	\$	\$
Accounts receivable	(328,765)	(1,514,159)
Inventories	385,503	(885,412)
Prepaid expenses	(75,715)	157,346
Other receivables	(141,549)	(164,659)
Income taxes recoverable	15,498	(144,690)
Accounts payable and accrued liabilities	(115,840)	(599,145)
	(260,868)	(3,150,719)

Prism Medical Ltd.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

November 30, 2006

18. FINANCIAL INSTRUMENTS

Fair value

The Company has determined the estimated fair values of its financial instruments based on appropriate valuation methodologies; however, considerable judgment is required to develop these estimates. Accordingly, these estimated fair values are not necessarily indicative of the amounts the Company could realize in a current market exchange. The estimated fair value amounts can be materially affected by the use of different assumptions or methodologies. The methods and assumptions used to estimate the fair value of financial instruments are described below:

Cash and cash equivalents, accounts receivable, bank indebtedness and accounts payable and accrued liabilities

Due to the short period to maturity of these instruments, the carrying values as presented in the consolidated balance sheets are reasonable estimates of fair value.

Long-term debt

The fair value of the Company's long-term debt, based on current rates for debt with similar terms and maturities, is not materially different from its carrying value.

Credit risk

The Company's financial assets that are exposed to credit risk consist primarily of accounts receivable.

The Company in the normal course of business, is exposed to credit risk from its customers, substantially all of which are in the medical industry. These accounts receivable are subject to normal industry credit risks.

Interest rate risk

The Company's financial liabilities that are exposed to interest rate risk consist primarily of promissory notes payable and convertible debentures.

The Company has established debt with fixed interest rates. Should current interest rates for debt with similar terms and maturities fluctuate materially, the fair value of the Company's long-term debt may change relative to its carrying value.

Foreign exchange risk

The Company has financial liabilities that are exposed to foreign exchange rate risk. The risk primarily relates to promissory notes payable which were issued to vendors of previously acquired businesses.

Prism Medical Ltd.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

November 30, 2006

Should foreign exchange rates fluctuate materially, the fair value to the Company's long term debt may change relative to its carrying value.

19. RELATED PARTY TRANSACTIONS

On December 1, 2005, the Company entered into a management contract with Ayrshire Financial Inc. for the provision of management services. Ayrshire Financial Inc. is a corporation that is beneficially owned by the Company's Chief Financial Officer and his spouse. Fees are charged on a per diem basis and were \$286,890 in 2006.

The acquisition of Tri-Care Developments and Freeway Healthcare, were completed on September 17, 2004. Subsequent to the acquisitions, the prior owners were each appointed to the position of Managing Director for a division of the Company and one of the prior owners was appointed to the Board of Directors of the Company.

As at November 30, 2006 the Company, has accrued interest payable to the prior owners of \$133,742 [2005 - \$132,058] in connection with the promissory notes issued in connection with the acquisition.

The Company leases property from the prior owners. The leases require monthly payments of \$29,657 and expire in 2010 and 2013. The rent charged during 2006 was \$355,884 [2005 - \$384,168]

The Company also leases property from the spouse of a prior owner. The lease requires monthly payments of \$6,825 and the lease is a month to month lease. The rent charged during 2006 was \$81,900 [2005 - \$85,376]

In 2006, the Company received services from a spouse of a prior owner totaling \$119,317 [2005 - \$99,815]

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

Following the acquisitions the Company collected monies in respect of debtors still owned by the prior owners. At November 30, 2006 the amounts due from the prior owners was Nil [2005 - \$150,002]

20. NORMAL COURSE ISSUER BID

The Company adopted a normal course issuer bid for up to 302,163 of its issued common shares, representing approximately 5% of the common shares outstanding. This bid was commenced on August 1, 2006 and will continue until the earlier of July 31, 2007 or the date on which the Company has acquired the maximum number of common shares that may be purchased. Purchases will be made on the open market through the facilities of the TSX Venture Exchange at the market price. All common shares purchased under the Normal Course issuer Bid will be

Prism Medical Ltd.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

November 30, 2006

returned to treasury and cancelled. The board of directors of the Company believes that the proposed purchase from time to time of up to 302,163 common shares is in the best interests of the Company and that such purchases represent an appropriate and desirable use of its available funds. Shareholders can obtain a copy of the notice filed with the TSX Venture Exchange with respect to this bid, without charge, by contacting the Company.

As at November 30, 2006, 90,900 common shares were purchased under the normal course issuer bid for an aggregate cost of \$231,027, of which \$80,133 of the cost was applied as a reduction of retained earnings and \$150,894 as a reduction of share capital.

21. MAJOR CUSTOMERS

The Company has a significant customer in Canada which represents 20% [2005 – 15%] of consolidated sales and 13% [2005 – 18%] of accounts receivable.

22. COMPARATIVE CONSOLIDATED FINANCIAL STATEMENTS

The comparative consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the 2006 consolidated financial statements.