

PRISM MEDICAL LTD.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Six months ended May 31, 2007 and May 31, 2006

The following discussion of the financial condition and results of operations of the Company should be read in conjunction with the audited consolidated financial statements and notes therein for the year ended November 30, 2006. We have prepared our unaudited consolidated financial statements in accordance with Canadian generally accepted accounting principles.

These interim financial statements, associated notes and Discussion and Analysis have not been reviewed by an external auditor.

All dollar figures are expressed in thousands of Canadian dollars except for earnings per share or 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. For a complete list of risks and uncertainties please consult the Company's annual information forms and Management's Discussion and Analysis filed with Canadian securities commissions, available on www.sedar.com

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 is a provider of durable medical equipment (DME) to the mobility disadvantaged in Canada, the USA and the United Kingdom (UK). Since the mid 1980's Prism's subsidiaries have been servicing the mobility disadvantaged in their homes, long-term care facilities and acute care facilities.

In North America, our division Waverley Glen Systems (Waverley) operates from a facility in Woodbridge, Ontario that includes manufacturing and a showroom/training centre. Waverley established a new location last year in St. Louis Missouri following the acquisition of ErgoSafe Products, LLC, a manufacturer and distributor of a variety of non-mechanical safe patient handling and movement products in the US.

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In the UK, our subsidiary Freeway Healthcare (Freeway) operates two manufacturing plants in North Wales in addition to Westholme and Care Free Lifting our distribution businesses that provide estimating, installation, maintenance and training services pursuant to the installation and sale of DME to the homecare market in the UK from three 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 products have historically been ceiling lifts, both fixed and portable. Management believes ceiling lifts are a superior technology to other types of products used to move and handle people and that their use is considered 'best practice' in most jurisdictions. They perform 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).

Particularly in the United States but also in the United Kingdom and Canada, we have shifted our strategy by offering a full line of products that addresses the problems encountered with moving and handling people in institutional and homecare environments. Not only do we now focus our efforts on ceiling lifts but we now offer complete solutions which require the use of mobile floor lifts and transfer and repositioning aids.

Our services include injury cost estimation, estimating, risk assessment, installation, training and ongoing preventative maintenance. Services 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 that 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 its 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 customers, 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.

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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 may lack the 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

In 2007 we hope to enhance shareholder value by continuing to pursue the following actions focused on sales and profit growth:

- Achieve broader coverage of the UK market by securing additional high quality dealers and by company owned geographic expansion. With broader coverage, we believe additional service and product supply business from national accounts can be secured.
- Focus on securing market share in the US institutional market by exploiting our full line of moving and handling product solutions,
- Realize manufacturing efficiencies by increasing production volume in our UK manufacturing facilities.

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 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

The Company has adequate levels of capital. At May 31, 2007 the Company had cash of Nil and unutilized debt capacity of \$7,847 when calculated using the new bank facility (see Liquidity and Capital Resources section) to finance ongoing operations including planned fixed asset expenditures and research and development expenditures.

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Further capital will be required to consummate any meaningful acquisitions. Historically, Prism has successfully financed acquisitions and other events that required capital infusions. The Company has in place a revolving term loan acquisition facility for up to \$10,000. This facility will provide the Company with greater flexibility in terms of both the timing and amount of capital it raises in the public markets. 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.

CHANGE IN ACCOUNTING POLICY

The Canadian Institute of Chartered Accountants issued three handbook sections that apply to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2006. The Company adopted the new sections as follows:

Section 1530 – Comprehensive Income

Effective December 1, 2006 the Company adopted section 1530 of the CICA Handbook, *Comprehensive Income*, which describes how to report and disclose comprehensive income and its components. Comprehensive income is the change in our net assets that results from transactions, events and circumstances from sources other than shareholders. It includes items that would not normally be included in net earnings, such as

- Changes in the currency translation adjustment relating to self-sustaining foreign operations
- Unrealized gains or losses on available-for-sale investments
- Gains and losses on cash flow hedges.

Section 3855 – Financial Instruments

Effective December 1, 2006 the Company adopted section 3855 of the CICA Handbook, *Financial Instruments – Recognition and Measurement*, which describes the standards for recognizing and measuring financial liabilities and derivatives. This section requires that:

- All financial assets be measured at fair value, with some exceptions for loans and investments that are classified as held-to maturity
- All financial liabilities be measured at fair value if they are derivatives or classified as held for trading purposes. Other financial liabilities are measured at their amortized cost.
- All derivative financial instruments be measured at fair value, even when they are part of a hedging relationship.

Due to the adoption of Section 3855, a retained earnings adjustment of \$637 was recorded at December 1, 2006 consisting of a reclassification of unamortized deferred financing transaction costs of \$965, a deferred tax asset of \$248 being created to reflect the unamortized tax value of the deferred financing costs and an \$80 adjustment to reflect the use of the effective interest method rather than the straight line method on the interest calculation of our convertible debenture.

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Section 3865 - Hedges

Effective December 1, 2006 the Company adopted section 3865 of the CICA Handbook, *Hedges*, which describes how and when hedge accounting can be used. Hedging is an activity used to change an exposure to one or more risks by creating an offset between:

- Changes in the fair value of a hedged item and a hedging item, or
- Changes in the cash flows attributed to a hedged item and a hedging item, or
- Changes resulting from a risk exposure related to a hedged item and a hedging item.

The adoption of this section has not changed the operating results from that which would have been otherwise reported.

NORMAL COURSE ISSUER BID

The Company has 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 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.

During the first six months of 2007, 31,500 (2006 – Nil) common shares were purchased under the normal course issuer bid for an aggregate cost of \$106, of which \$54 of the cost was applied as a reduction of retained earnings and \$52 as a reduction of share capital.

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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 purchase price was satisfied as follows:

	\$
Cash	392
Transaction costs	43
Value of common shares issued	330
Total purchase consideration	765

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

	\$
Current assets	211
Capital assets	2
Intangible assets	363
Goodwill	261
Liabilities assumed	(72)
Total purchase consideration	765

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 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 based upon 20 percent of the excess of the annual gross profit of the ErgoSafe products and an annual gross profit benchmark for the period up to and including December 31, 2011.

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For the 3 months ended May 31, 2007

Sales

Sales to external customers based on the location of the sale is comprised of the following:

	Change in Period	Three Months ended			
		May 31, 2007		May 31, 2006	
United States	13%	\$ 870	8%	\$ 769	7%
Canada	(41%)	2,445	22%	4,114	37%
United Kingdom	24%	7,661	70%	6,182	56%
	(1%)	\$ 10,976	100%	\$ 11,065	100%

United States

Sales were positively affected by the Ergosafe acquisition that was completed at the beginning of the third quarter of 2006.

Canada

The 2007 Canadian sales decrease of \$1,669 (41 percent) was caused by a cessation of Ontario government funding of patient lifts.

United Kingdom

The UK sales increase of \$1,479 in 2007 compared to 2006 was driven by an increase in third party dealers, the better geographic service capability of our company owned dealers and a stronger UK pound relative to the Canadian dollar.

Gross Profit

	Three Months ended	
	May 31, 2007	May 31, 2006
Gross profit	\$ 4,653	\$ 4,421
Percentage of sales	42.4%	40.0%

Gross profit as a percentage of sales increased in this quarter when compared to 2006 because higher margin UK sales increased as a percentage of total sales. The positive effect of manufacturing and distributing a large proportion of our core products in the UK causes this improvement.

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Selling and Administrative Expenses

	Three Months ended	
	May 31, 2007	May 31, 2006
Selling and Administrative Expenses	\$ 3,055	\$ 2,937
Percentage of sales	28%	27%

Selling and administrative expenses which include sales and marketing expenses, office expenses, non-manufacturing related salaries and professional fees increased \$118 to \$3,055 in the second quarter of 2007. Included in the second quarter of 2007 were \$165 of costs related to our ongoing strategic initiatives and \$130 of costs caused by the strengthening of the UK pound in 2007 versus the same quarter in 2006. These factors were offset by cost decreases related to our operational focus to achieve greater efficiency.

Amortization

The amortization expense in the quarter consists of the following:

	Three Months ended	
	May 31, 2007	May 31, 2006
Cost of sales - property, plant and equipment	\$ 179	\$ 135
Research and development - deferred charges	91	68
Operations - deferred charges	34	17
Operations - property, plant and equipment	67	75
Intangible assets	(13)	-
Deferred financing fees	-	50
	\$ 358	\$ 345

Continued investment in plant equipment in the UK and leasehold improvements in our new Canadian facility have been the main contributors to increased plant depreciation. We introduced major new products to North American markets in late 2006. Amortization of these development costs in 2007 accounts for the increase in this expense. The small negative change in intangible assets amortization corrects an over-provision in the first quarter. The balance of deferred financing fees was written off following the adoption of CICA Handbook section 3855, see change in accounting policy.

Interest Expense

	Three Months ended	
	May 31, 2007	May 31, 2006
Total interest expense	\$ 366	\$ 406

Interest expense declined because long-term debt levels are lower in 2007 versus 2006.

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Income Taxes

	Three Months ended	
	May 31, 2007	May 31, 2006
Total tax provision	\$ 131	\$ 349
Percentage of income before income taxes	16%	61%

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 unusually low rate of tax expense is primarily caused by unrealized losses from foreign currency translation on intercompany balances in the quarter, due to the strengthening Canadian dollar against the UK pound in the quarter. Although the expense is eliminated on consolidation, and therefore does not affect pre-tax income, the local tax provision is reduced and is represented as a permanent difference.

The situation was reversed in 2006 as the Canadian dollar weakened against the UK pound.

Net income

	Three Months ended	
	May 31, 2007	May 31, 2006
Income before income taxes	\$ 836	\$ 573
Net income	\$ 705	\$ 224
Percentage of sales	6%	2%
Earnings per share	\$ 0.12	\$ 0.04
Diluted earnings per share	\$ 0.10	\$ 0.04

The gross profit increase due to increased higher-margin UK sales and the reduced tax expense due to the strengthening Canadian dollar each contributed two points of the four point improvement in net income as a percentage of sales for the quarter over last year.

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EBITDA

	Three Months ended			
		May 31, 2007		May 31, 2006
EBITDA *	\$	1,589	\$	1,357
Percentage of sales		14%		12%
EBITDA from Operations **	\$	2,374	\$	2,041
Percentage of sales		22%		18%

EBITDA from operations increased to 22 percent of sales in the second quarter of 2007, a 4 percent gain from the comparable period in 2006 driven by a revitalized UK marketplace and tighter cost control.

Management regards increased EBITDA from Operations as a key performance indicator when assessing performance and valuing the Company.

* "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.

***"EBITDA from Operations" consists of EBITDA adjusted for the exclusion of consolidating accounting adjustments, head office costs and foreign exchange gains/losses from inter company debt obligations. Management believes that "EBITDA from Operations" is a useful measure in evaluating the *operating performance* of the Company as this non-GAAP measure excludes head office costs. "EBITDA from Operations" is not intended to represent cash flow or results of operations in accordance with Canadian generally accepted accounting principles. "EBITDA from Operations" does not have a standardized meaning prescribed by GAAP and may not be comparable to similarly titled measures reported by other companies.

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For the 6 months ended May 31, 2007

Sales

Sales to external customers based on the location of the sale is comprised of the following:

	Change in Period	Six Months ended			
		May 31, 2007		May 31, 2006	
United States	39%	\$ 1,814	9%	\$ 1,307	6%
Canada	(42%)	5,005	24%	8,663	41%
United Kingdom	25%	14,288	68%	11,399	53%
	(1%)	\$ 21,107	100%	\$ 21,369	100%

United States

Sales were positively affected by the Ergosafe acquisition that was completed at the beginning of the third quarter of 2006.

Canada

The 2007 Canadian sales decrease of \$3,658 versus the first six months of 2006 was caused by a cessation of Ontario government funding for patient lifts.

United Kingdom

For the first six months of 2007 UK sales increased \$2,889 (25 percent) versus the same period in 2006. This was caused by an increase in third party dealers, the better geographical service capability of our company owned dealers and a strong UK pound relative to the Canadian dollar.

Gross Profit

	Six Months ended			
	May 31, 2007		May 31, 2006	
Gross profit	\$	8,486	\$	8,357
Percentage of sales		40.2%		39.1%

Gross profit as a percentage of sales increased in the first six months of 2007 compared to same period in 2006 because higher margin UK sales increased as a percentage of total sales. The positive effect of manufacturing and distributing a large proportion of our core products in the UK causes this improvement.

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Selling and Administrative Expenses

	Six Months ended	
	May 31, 2007	May 31, 2006
Selling and Administrative Expenses	\$ 5,901	\$ 5,802
Percentage of sales	28%	27%

Selling and administrative expenses which include sales and marketing expenses, office expenses, non-manufacturing related salaries and professional fees increased \$99 to \$5,901 in the first 6 months of 2007. Included in the first 6 months of 2007 were \$190 of costs related to our ongoing strategic initiatives, \$25 of non-recurring costs related to UK expansion and \$304 of costs caused by the strengthening of the UK pound in 2007 versus 2006. These factors were offset by cost decreases related to our operational focus to achieve greater efficiency.

Amortization

The amortization expense for the period consists of the following:

	Six Months ended	
	May 31, 2007	May 31, 2006
Cost of sales - property, plant and equipment	\$ 352	\$ 268
Research and development - deferred charges	169	130
Operations - deferred charges	33	17
Operations - property, plant and equipment	144	178
Intangible assets	23	
Deferred financing fees	-	100
	\$ 721	\$ 693

Continued investment in plant equipment in the UK and leasehold improvements in our new Canadian facility have been the main contributors to increased plant depreciation. We introduced major new products to North American markets in late 2006. Amortization of these development costs in 2007 accounts for the increase in this expense. The balance of deferred financing fees was written off following the adoption of CICA Handbook section 3855, see change in accounting policy.

Interest Expense

	Six Months ended	
	May 31, 2007	May 31, 2006
Total interest expense	\$ 728	\$ 786

Interest expense declined because long-term debt levels are lower in 2007 versus 2006.

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Income Taxes

	Six Months ended	
	May 31, 2007	May 31, 2006
Total tax provision	\$ 377	\$ 475
Percentage of income before income taxes	29%	53%

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 low rate of tax expense is primarily caused by unrealized losses from foreign currency translation on intercompany balances in the six month period, due to the strengthening Canadian dollar against the UK pound in the six month period. Although the expense is eliminated on consolidation, and therefore does not affect pre-tax income, the local tax provision is reduced and is represented as a permanent difference.

The situation was reversed in 2006 as the Canadian dollar weakened against the UK pound.

Net income

	Six Months ended	
	May 31, 2007	May 31, 2006
Income before income taxes	\$ 1,287	\$ 892
Net income	\$ 910	\$ 417
Percentage of sales	4%	2%
Earnings per share	\$ 0.15	\$ 0.07
Diluted earnings per share	\$ 0.14	\$ 0.07

Reduced expenses overall contributed one point of the two point increase in net income as a percentage of sales, with the remaining one point increase due to gross profit increase and reduced tax expense.

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EBITDA

	Six Months ended			
	May 31, 2007		May 31, 2006	
EBITDA *	\$	2,793	\$	2,450
Percentage of sales		13%		11%
EBITDA from Operations **	\$	4,166	\$	3,609
Percentage of sales		20%		17%

EBITDA from operations increased to 20 percent of sales first six months of 2007, a 3 percent gain from the comparable period in 2006 driven by a revitalized UK marketplace and tighter cost control.

Management regards increased EBITDA from Operations as a key performance indicator when assessing performance and valuing the Company.

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Liquidity and Capital Resources

At May 31, 2007, the Company had cash and cash equivalents of Nil compared to Nil at November 30, 2006.

Cash outflow from non-cash working capital balances was \$559 compared to \$368 in the first six months of 2006. Inventory build up as new products are introduced to market caused the increase. Inventory levels should gradually decrease over the balance of the year.

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The Company's working capital position at May 31, 2007 was \$10,080, compared to \$10,451 at November 30, 2006.

During the first six months of 2007, cash used by financing activities was \$471 consisting of cancellation of share capital \$106, a bank indebtedness increase of \$638 and a long-term debt decrease through principal repayments of \$1,003.

Cash used in investing activities represented outflows of \$743 for the six months ended May 31, 2007, compared to outflows of \$620 in 2006.

In the first six months of 2007, expenditures on capital spending increased to \$604 compared to \$379 in 2006 as additions to plant and equipment were made primarily to smooth new product introduction.

In the first six months of 2007 expenditures on deferred charges decreased from \$261 in 2006 to \$120.

The Company's net debt position of \$15,552 at May 31, 2007, consisting of bank indebtedness, short and long-term debt, decreased \$528 from November 30, 2006.

OUTLOOK

The Company intends to grow sales, profitability and return on shareholders' equity. We believe that performance will be positively affected by a continued and more orderly Canadian institutional demand for our products, improved manufacturing efficiencies, greater geographic coverage, and revenues and profits from new product introductions. Through the addition of more distributors, both as independents and company owned expansion, we hope to achieve a gradual growth in UK and US profitability.

The demand for our core products and services, in management's estimation, 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.

"Andrew McIntyre"
Chairman and Chief Executive Officer

"John Charles"
Chief Financial Officer

July 27, 2007