

Consolidated Financial Statements
(unaudited)

Prism Medical Ltd.

May 31, 2007

Prism Second Quarter Report 2007

Prism Medical Ltd.**CONSOLIDATED BALANCE SHEETS**

(unaudited)

	May 31 2007	November 30 2006
	\$	\$
<i>(stated in thousands of Canadian dollars)</i>		
ASSETS		
Current		
Accounts receivable	6,913	8,949
Inventories	10,409	8,427
Prepaid expenses	781	325
Other receivables	661	300
Income taxes recoverable	799	741
Total current assets	19,563	18,742
Property, plant and equipment, net	2,792	2,757
Deferred charges, net	976	2,022
Goodwill	13,193	13,739
Intangible assets	362	384
Future income tax asset	3,795	3,579
	40,681	41,223
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Bank indebtedness	1,029	391
Accounts payable and accrued liabilities	7,054	6,534
Current portion of long-term debt	1,400	1,366
Total current liabilities	9,483	8,291
Long-term debt	13,123	14,323
Future tax liabilities	413	416
Total liabilities	23,019	23,030
Total shareholders' equity [note 5]	17,662	18,193
	40,681	41,223

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**

(unaudited)

<i>(stated in thousands of Canadian dollars, except per share amounts)</i>	Three months ended		Six months ended	
	May 31	May 31	May 31	May 31
	2007	2006	2007	2006
	\$	\$	\$	\$
Sales	10,976	11,065	21,107	21,369
Cost of goods sold	6,323	6,644	12,621	13,012
Gross profit	4,653	4,421	8,486	8,357
Expenses				
Selling and administrative	3,055	2,937	5,901	5,802
Severance and termination	-	151	-	246
Loss on foreign exchange	178	63	124	68
Research and development	11	48	20	61
Stock based compensation	29	34	58	77
Amortization	178	209	368	425
Interest	366	406	728	786
Income before income taxes	836	573	1,287	892
Provision for income taxes				
Current	67	320	202	417
Future	64	29	175	58
	131	349	377	475
Net Income	705	224	910	417
Retained earnings, beginning of period as previously reported	7,197	6,308	7,683	6,115
Transitional adjustment on adoption of new accounting policy <i>[note 2]</i>	-	-	(637)	-
Retained earnings, beginning of period restated	7,197	6,308	7,046	6,115
Net income for the period	705	224	910	417
Premium on share buy-back <i>[note 8]</i>	-	-	(54)	-
Retained earnings, end of period	7,902	6,532	7,902	6,532
Earnings per share <i>[note 5]</i>				
Basic	\$0.12	\$0.04	\$0.15	\$0.07
Diluted	\$0.10	\$0.04	\$0.14	\$0.07

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

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Prism Medical Ltd.

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

(unaudited)

<i>(stated in thousands of Canadian dollars)</i>	Three months ended		Six months ended	
	May 31	May 31	May 31	May 31
	2007	2006	2007	2006
	\$	\$	\$	\$
Net income for the period	705	224	910	417
Change in foreign currency translation gain (loss) on self-sustaining foreign operations	(1,355)	529	(756)	335
Comprehensive income (loss) for the period [note 2]	(650)	753	154	752
Accumulated other comprehensive loss – beginning of period	(263)	(2,605)	(862)	(2,411)
Change in foreign currency translation gain (loss) on self-sustaining foreign operations	(1,355)	529	(756)	335
Accumulated other comprehensive loss – end of period [note 5]	(1,618)	(2,076)	(1,618)	(2,076)

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

Prism Medical Ltd.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

<i>(stated in thousands of Canadian dollars)</i>	Three months ended		Six months ended	
	May 31	May 31	May 31	May 31
	2007	2006	2007	2006
	\$	\$	\$	\$
OPERATING ACTIVITIES				
Net income	705	224	910	417
Add items not affecting cash				
Future income taxes	(198)	29	(87)	58
Stock based compensation	29	34	58	78
Amortization – cost of goods sold	179	135	352	268
Amortization – research and development	72	67	130	130
Amortization – operations	107	142	239	295
Interest accretion on convertible debt	39	40	70	80
	933	671	1,672	1,326
Net change in non-cash working capital balances <i>[note 7]</i>	71	806	(559)	(368)
Cash provided by operating activities	1,004	1,477	1,113	958
INVESTING ACTIVITIES				
Deferred charges	(56)	(154)	(120)	(261)
Intangible assets	(19)	-	(19)	-
Purchase of capital assets	(381)	(122)	(604)	(379)
Decrease in notes receivable net of repayment	-	9	-	20
Cash used in investing activities	(456)	(267)	(743)	(620)
FINANCING ACTIVITIES				
(Decrease) / increase in bank indebtedness	(243)	(611)	638	1,186
Repayment of long-term debt	(368)	(93)	(1,003)	(602)
Cancellation of share capital <i>[note 8]</i>	-	-	(106)	-
Issuance of share capital	-	24	-	138
Cash provided by (used in) financing activities	(611)	(680)	(471)	722
Effect of exchange rate changes on cash	63	64	101	45
Net increase in cash during period	-	594	-	1,105
Cash and cash equivalents, beginning of period	-	1,203	-	692
Cash and cash equivalents, end of period	-	1,797	-	1,797
Supplemental cash flow information				
Interest paid	95	143	670	760
Income taxes paid	154	151	285	151

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

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Prism Medical Ltd.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED MAY 31, 2007

1. SIGNIFICANT ACCOUNTING POLICIES

The accompanying unaudited consolidated financial statements have been prepared by the Company in accordance with Canadian generally accepted accounting principles on a basis consistent with those followed in the most recent audited financial statements. These unaudited consolidated financial statements do not include all the information and footnotes required by generally accepted accounting principles for the annual financial statements and therefore should be read in conjunction with the audited consolidated annual financial statements and notes included in the Company's Annual Report for the year ended November 30, 2006.

All dollar figures are expressed in thousands of Canadian dollars except for earnings per share or unless otherwise stated.

2. 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:

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.

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 are measured at fair value, even when they are part of a hedging relationship.

Prism Medical Ltd.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED MAY 31, 2007

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 future income 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.

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 first six months of 2007 operating results from that which would have been otherwise reported.

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 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 of the additional year end provision during the third quarter of 2006.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED MAY 31, 2007

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.

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 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 UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED MAY 31, 2007

5. SHAREHOLDERS' EQUITY

Shareholders' equity consists of the following:

	May 31 2007 \$	November 30 2006 \$
Share capital	9,783	9,835
Other paid-in-capital	1,115	1,115
Accumulated other comprehensive loss [note 2]	(1,618)	(862)
Contributed surplus	480	422
Retained earnings as restated	7,902	7,683
Total shareholders' equity	17,662	18,193

The authorized and issued share capital consists of the following:

	May 31 2007 \$	November 30 2006 \$
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Authorized

Unlimited common shares

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

Issued

6,014,860 [2006 – 6,046,360] common shares	9,783	9,835
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During the first six months of 2007, 31,500 common shares were purchased under the Normal Course Issuer Bid [Note 8] for an aggregate cost of \$106. For each share purchased for cancellation share capital was reduced by \$1.66. In aggregate share capital was reduced by \$52 [2006 – Nil].

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.

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**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED MAY 31, 2007**

A summary of the Plan and changes during each of 2006 and the six months ending May 31, 2007 are as follows:

	<u>Six Months ended</u> <u>May 31, 2007</u>		<u>Year ended</u> <u>November 30, 2006</u>	
	<u>Shares</u> <u>#</u>	<u>Weighted</u> <u>average</u> <u>exercise</u> <u>price</u> <u>\$</u>	<u>Shares</u> <u>#</u>	<u>Weighted</u> <u>average</u> <u>exercise</u> <u>price</u> <u>\$</u>
Outstanding at beginning of period	230,000	4.45	508,672	3.49
Exercised	-	-	(159,024)	2.36
Expired and forfeited during period	-	-	(119,648)	3.16
Outstanding at end of period	230,000	4.45	230,000	4.45
Options exercisable at end of period	160,000	4.40	115,000	4.45

The following table summarizes information on options outstanding at May 31, 2007:

<u>Exercise</u> <u>prices</u> <u>\$</u>	<u>Options outstanding</u>		
	<u>Number</u> <u>outstanding</u> <u>#</u>	<u>Weighted</u> <u>average</u> <u>remaining</u> <u>contractual life</u> <u>years</u>	<u>Weighted</u> <u>average</u> <u>exercise</u> <u>price</u> <u>\$</u>
4.30	180,000	0.99	4.30
4.90	30,000	1.08	4.90
5.07	20,000	1.41	5.07
	230,000	1.04	4.45

<u>Exercise</u> <u>prices</u> <u>\$</u>	<u>Options exercisable</u>	
	<u>Number</u> <u>outstanding</u> <u>#</u>	<u>Weighted</u> <u>average</u> <u>exercise</u> <u>price</u> <u>\$</u>
4.30	135,000	4.30
4.90	15,000	4.90
5.07	10,000	5.07
	160,000	4.40

Prism Medical Ltd.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED MAY 31, 2007

The Company accounts for stock options granted after December 1, 2003 under the fair value method. For the first six month of 2007, Nil [2006 – Nil] stock options were granted and the Company recorded as compensation expense \$58 [2006 – \$77].

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 UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED MAY 31, 2007

Earnings per share

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

	Three months ended		Six months ended	
	May 31 2007 \$	May 31 2006 \$	May 31 2007 \$	May 31 2006 \$
Net income for period	705	224	910	417
After-tax interest expense on convertible debentures	179	-	357	-
Adjusted net income for fully diluted earnings per share	884	224	1,267	417
Weighted average number of common shares outstanding (in thousands)	6,015	5,942	6,020	5,923
Effect of dilutive securities	2,917	-	2,918	2
Diluted weighted average shares outstanding	8,932	5,942	8,938	5,925
Earnings per share				
Basic	\$0.12	\$0.04	\$0.15	\$0.07
Diluted	\$0.10	\$0.04	\$0.14	\$0.07

Prism Medical Ltd.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED MAY 31, 2007

6. INFORMATION BY SEGMENT

Industry segments

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

Geographic segments	Three months ended		Six months ended	
	May 31 2007 \$	May 31 2006 \$	May 31 2007 \$	May 31 2006 \$
Sales				
United States	870	769	1,814	1,307
Canada	2,445	4,114	5,005	8,663
United Kingdom	7,661	6,182	14,288	11,399
Total	10,976	11,065	21,107	21,369
			May 31 2007 \$	May 31 2006 \$
Total assets				
United States			1,076	327
Canada			15,217	13,740
United Kingdom			24,388	27,357
Total			40,681	41,424
Goodwill				
United States			247	-
Canada			327	327
United Kingdom			12,619	12,474
Total			13,193	12,801

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

Prism Medical Ltd.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED MAY 31, 2007

7. STATEMENT OF CASH FLOWS

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

	Three months ended		Six months ended	
	May 31 2007	May 31 2006	May 31 2007	May 31 2006
	\$	\$	\$	\$
Accounts receivable	994	648	1,850	(512)
Inventories	(1,834)	240	(2,278)	197
Prepaid expenses	(157)	(165)	(489)	(326)
Other receivables	(374)	(23)	(366)	(139)
Income taxes recoverable	60	(184)	(58)	(410)
Accounts payable and accrued liabilities	1,382	290	782	822
	71	806	(559)	(368)

8. 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.

9. COMPARATIVE CONSOLIDATED FINANCIAL STATEMENTS

The comparative consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the 2007 consolidated financial statements.