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Initiating Report

July 5, 2007

DIVCOM LIGHTING INC.

($0.28 DVQ:TSX)

Recommendation
Speculative Buy

Risk
High

Target Price
$0.60

Price (July 4)
$0.28

Potential Return
114%

52-Week Range
$0.50-$0.245

% Below High
44%

% Above Low
14%

Shares O/S
43.7 million

Market Cap
$12.2 million

Average Daily Volume
20-Day: 46,650
150-Day: 70,400

Year-End
November 30

C$	BVPS	EPS
2004a	$0.39	$0.001
2005a	$0.40	$0.019
2006a	$0.38	$0.001
2007e	$0.40	$0.019
2008e	$0.43	$0.030

BVPS: Book Value Per Share
EPS: Earnings Per Share

Analysts
Bob Leshchyshen B.A., MBA, CFA
Bob Weir, B.Sc., B. Comm, CFA

Data Source: www.BigCharts.com

RECOMMENDATION

We recommend the shares of Divcom Lighting Inc. ("Divcom" or the "Company") to risk-tolerant investors as a Speculative Buy with a 12-month Target Price of $0.60 per share.

PROFILE

Divcom Lighting Inc. is a North American manufacturer of architecturally designed energy-efficient lighting products for retail and commercial markets across Canada and the United States.

HIGHLIGHTS

- Reorganized sales and manufacturing operations into four "power centres" resulting in expected operational savings of more than $1 million.
- Company's commercial products specified by architects and engineers throughout North America.
- Company focused on providing energy efficient sources of light: High Intensity Discharge(HID), Fluorescent, Low Voltage and Light Emitting Diodes (LED).
- The substantial softness of the new housing market in the U.S. may affect revenue growth in the short term.
- Strength of the Canadian dollar will have negative impact on profitability.

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THE COMPANY

Divcom Lighting Inc. is a North American manufacturer of architecturally designed energy-efficient lighting products for retail and commercial markets across Canada and the United States. Divcom operates through nine solely-owned lighting company subsidiaries situated in Canada and the United States. The Company's products are used in residential, urban communities, roads and tunnels, and in lighting for public, commercial, industrial, hospitality and custom installations. The Company currently had 182 employees, including 148 in Canada and 34 in the United States.

INVESTMENT CONSIDERATIONS

Divcom has demonstrated the ability to grow its revenues significantly through both acquisitions and organic growth over the last few years, in a market that is very large and fragmented.

Strengths

- Taking advantage recent government initiatives encouraging both consumers and businesses to use efficient lighting.
- Marketing packaged efficient lighting products through its strong distribution network in the U.S. and Canada.

Challenges

- The substantial softness of the new housing market in the U.S. may affect revenue growth in the short term.
- Strength of the Canadian dollar will have negative impact on profitability.

OPERATIONS

The Company has nine lighting subsidiaries (see below) located in Canada and the United States. With the exception of Diversified Architectural Lighting Inc. all of the current subsidiaries have been acquired since the end of the 2002 fiscal year.

Divcom has grown from a small manufacturer of lighting fixtures with sales of $1.0 million in 1999 to $42.7 million in 2006, a compound annual growth rate of 70%. Divcom has achieved this revenue growth through both acquisitions and internal growth.

Divocm restructured the Company's operations into four power centres, each targeting a specific market niche. Those power centres are: Adjusta-Post Lighting Company (outdoor lighting-U.S.A.); SNOC Inc.(outdoor lighting-Canada); Diversified Architectural Lighting (Architectural lighting) and Linogene Inc.(Indoor lighting).

1. Diversified Architectural Lighting – Point Claire, Quebec

Facilities - 14,000 sq. ft. and 15 employees

Brands:

Diversified Architectural Lighting Inc.
a Divcom Lighting company

Diversified Architectural Lighting Inc. ("Diversified") is a designer and manufacturer of architectural lighting products. Diversified is the original brand of Divcom. Its products are known for their esthetical designs, efficiency and ruggedness. The company supplies quality products to esthetical urban areas such as schools, municipal streetscapes, parks, shopping malls, airports, commercial, corporate and industrial parks. Diversified currently also has a licensing agreement in place with Eclatec S.A. of France to re-manufacture their products exclusively for the North American market. The company was founded in 1968 and its head office is in Pointe-Claire, Quebec. The company's products are sold in North America and are available worldwide through designers which specify the lighting fixtures on particular projects and electrical distributors.

al+d
ARCHITECTURALLIGHTING+DESIGN
a Divcom Lighting company

Architectural Lighting + Design ("AL+D") is the fusion of three Divcom brands: Environmental Lighting of Canada (acquired by Divcom in June, 2004), Architectural Lighting of Canada (acquired by Divcom in May, 2004) and Moore Lambert. (acquired by Divcom in August, 2003). AL+D offers original designs for the architectural community of decorative compact fluorescent luminaries. Its products are seen in condominium buildings, long term care facilities, colleges and universities, airports, shopping malls, hotels and commercial buildings. AL+D's products are sold through designers which specify the light fixtures on particular projects and electrical distributors.

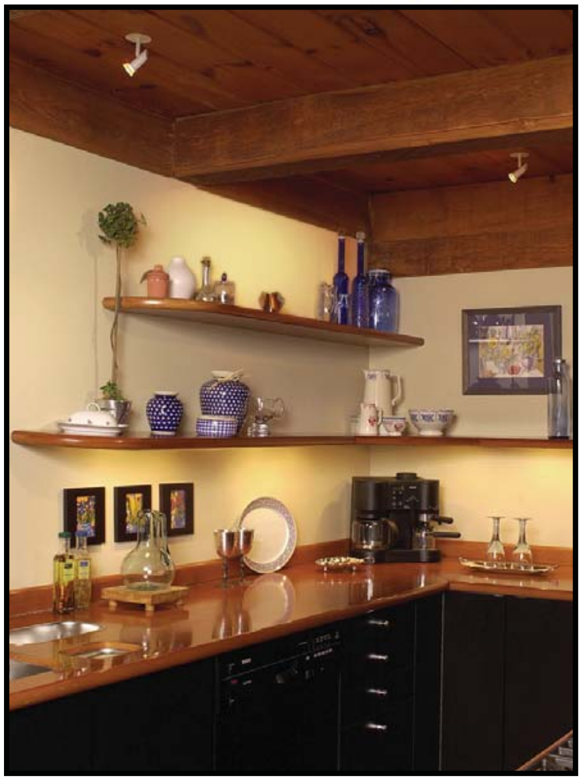
2. Linogene – Prevost, Quebec

Facilities - 15,000 sq. ft. and 13 employees

Brands:

linogene

a Divcom lighting company



Les Eclairges Linogene Inc. ("Linogene") is a designer and manufacturer of interior residential lighting products specializing in picture lights, under-cabinet and other specialty lighting. Its products are sold through lighting retailers and home renovation centers, including Multi-Luminaire, Eclaire Union, Royaume Luminaire and Maxi Luminaire in Quebec, Living Lighting in Ontario and Westburne Electric Supply in western Canada. Linogene was founded in 1991 and its head office is in Prevost, Quebec. Divcom Lighting acquired Linogene in November, 2004.

Lampada.

a Divcom Lighting company

Luminaires Lampada Inc. (“Lampada”) is a designer and manufacturer of decorative interior residential lighting. Lampada’s production facilities allow for quick delivery, custom models and a variety of finishes. Lampada’s products are sold through designers which specify the light fixtures on particular projects, lighting retailers and showrooms. Divcom Lighting acquired Lampada in March, 2003.

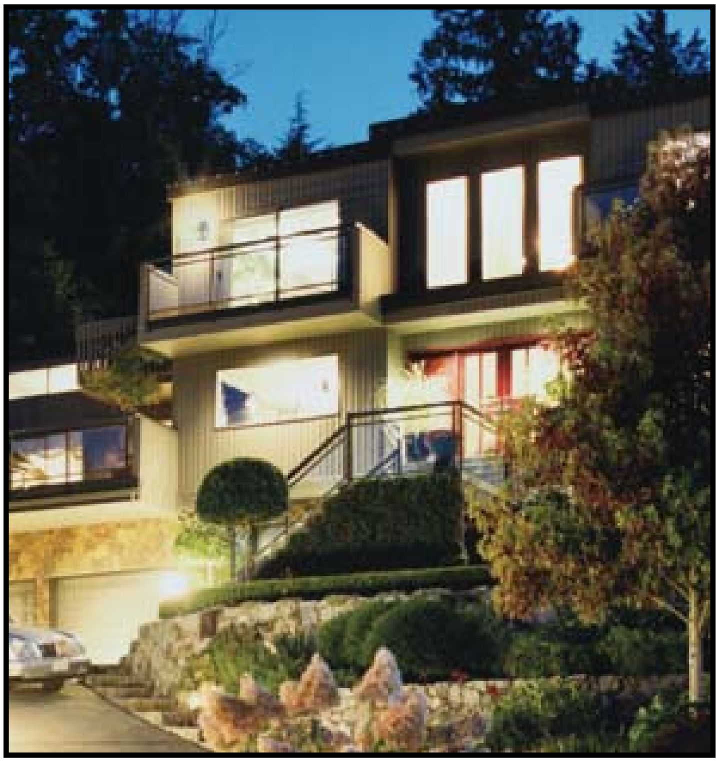
3. SNOC- St.-Hyacinthe, Quebec

Facilities - 53,500 sq. ft and 120 employees

Brands:

snoc
a DIVCOM LIGHTING company

SNOC Inc. is the manufacturer of cast aluminum residential outdoor lighting fixtures. The company provides a complete in-house manufacturing process and a single cast aluminum construction of lighting fixtures. The company offers a complete selection of products including garden lighting, mailboxes, house numbers and a host of related accessories. SNOC's products are sold through lighting retailers, showrooms and Do-It-Yourself stores. SNOC was founded by Georges Sansoucy in 1954 and its head office is located in St-Hyacinthe, Quebec. Divcom acquired SNOC in November, 2003.



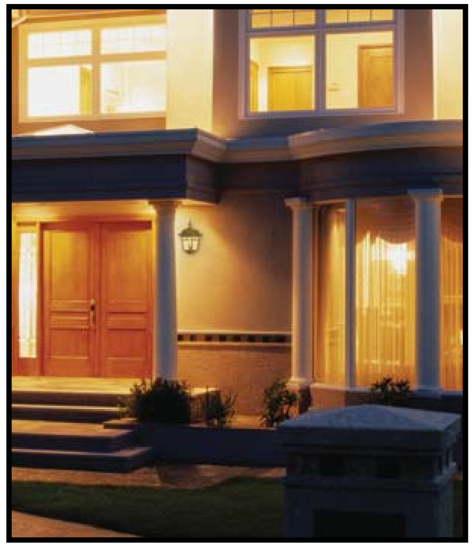
Dinico Products Inc. is a manufacturer of high quality cast aluminum outdoor lighting fixtures for commercial and residential applications. Dinico is a manufacturer of high quality cast aluminum outdoor lighting fixtures for commercial and residential applications. The company specializes in original, traditional designs featuring pole standards, multiple arm assemblies, residential fixtures, mailboxes, sign plates and various accessories. The company sells its products in United States and the Caribbean. The products are sold through lighting retailers, showrooms, electrical distributors and wholesalers. Dinico Products was founded in 1917 and its head office is located in Hawthorne, New Jersey, U.S.A. The facility has 18,120 sq. ft and 11 employees. Divcom acquired Dinico in May, 2004.

4. Adjusta-Post – Norton, Ohio

Facility – 100,000 sq. ft and 34 employees.

Brand:

Adjusta-Post Lighting Co.



Adjusta-Post Lighting Company ("Adjusta-Post") specializes in the fabrication of lampposts and outdoor lighting for residential and commercial purposes. In addition to this, Adjusta Post also focuses on a few niche markets such as non-metallic, non-corrosive lighting for coastal environments. Adjusta-Post has established sales relationships with two "big-box" home renovation and decoration store chains (Home Depot and Lowes) in the United States. The company also sells through lighting retailers and showrooms. Adjusta-Post was founded in 1947 and its head office is in Norton, Ohio. Divcom acquired Adjusta-Post in December, 2005.

OPERATIONAL STRATEGY

Divcom's strategy is to grow its lighting business both organically and through acquisitions. Divcom plans to continue to strategically acquire private lighting companies and then increase sales of the acquired product lines through its existing network of distributors and agents throughout North America. Based on the acquisitions made to date (see below), the average EBITDA multiple paid for these acquisitions has been 7.1x and the revenue multiple has averaged 0.68x.

Table 1. Divcom Acquisitions

Date Acquired	($000s)	$	Acquisition Price	*At time of purchase* Revenue	EBITDA	P/ Revenue	P/ EBITDA
Mar-03	Luminaires Lampada Inc.	Cdn$	1,000	935	80	1.07x	12.5x
Aug-03	Moore Lambert Lighting Inc.	Cdn$	500	500	(75)	1.00x	n/a
Nov-03	Snoc Inc.	Cdn$	8,600	9,800	1,200	0.88x	7.2x
May-04	Dinico Product	US$	400	500	(100)	0.80x	n/a
Jun-04	Environmental Lighting Inc.	Cdn$	1,000	1,700	300	0.59x	3.3x
Nov-04	Les Eclairges Linogene Inc.	Cdn$	3,800	3,800	570	1.00x	6.7x
Dec-05	Ajusta-Post Manufacturing Co.	US$	6,500	14,700	1,100	0.44x	5.9x
						0.68x	**7.1x**

Note: Moore Lambert and Dinico were paid on basis of taking over its debt - no cash was paid

Source: eResearch

In December 2005, Divcom acquired a major presence in the U.S. lighting fixtures market through the acquisition of Adjusta-Post Manufacturing Company, an Ohio-based manufacturer of outdoor lighting fixtures. The Adjusta-Post acquisition brought some strategic benefits to Divcom:

- Strong management team with significant experience in the U.S. lighting industry
- The addition of more than 1,500 distributors;
- Existing sales relationships with two major big-box chains in United States; (Home Depot and Lowes) and a national hardware chain; and
- A major manufacturing facility in the United States.

VALUATION

We have valued Divcom Lighting Inc. primarily by comparing the Company to major players in the lighting industry using a number of different valuation parameters:

- Price/Revenue multiple
- Price/EBITDA multiple
- Price/Earnings multiple

Peer Comparison

For valuation purposes, we are comparing Divcom Lighting Inc. to six companies, of which five are major U.S. companies in the electrical products and lighting fixtures market. All of these companies, except Carmanah, are significantly larger than Divcom.

Cooper Industries Ltd. is a global manufacturer of electrical products and tools. Cooper manufactures, markets and sells its products and provides services throughout the world. At December 31, 2006, Cooper had manufacturing facilities in 21 countries and currently employs approximately 31,000 people. The company generates most of its non-U.S. revenues in Canada, Germany, France, Mexico and the United Kingdom. The company has operations in India, Malaysia and China and also has several joint ventures with operations in China. Annual revenue is US$5.2 billion.

Hubbell Inc. is primarily engaged in the design, manufacture and sale of high quality electrical and electronic products for a broad range of commercial, industrial, telecommunications, utility, and residential applications. Products are either sourced complete, or manufactured or assembled by subsidiaries in the United States, Canada, Switzerland, Puerto Rico, Mexico, Italy, the United Kingdom, Brazil and Australia. Hubbell also participates in joint ventures in Taiwan and Hong Kong, and maintains sales offices in Singapore, the People's Republic of China, Mexico, Hong Kong, South Korea, and the Middle East. As of December 31, 2006, Hubbell had approximately 12,000 salaried and hourly employees of which approximately 8,000 of these employees, or 67%, are located in the United States. Annual revenue is US$2.4 billion.

The Genlyte Group Inc. designs, manufactures, markets, and sells lighting fixtures, controls, and related products for a wide variety of applications in the commercial, residential, and industrial markets primarily in North America. At December 31, 2006, the company employed 3,891 union and nonunion production workers and 2,495 engineering, administrative, and sales personnel, for a total of 6,386 employees. Annual revenue is US$1.5 billion.

LSI Industries Inc. is an image solutions company combining technology, integrated design, manufacturing, and service to provide high quality lighting and graphics solutions for a variety of markets – both indoors and outside. LSI stands for Leadership, Strength and Innovation and a commitment to technology and innovation has been a key company philosophy since inception. The company is headquartered in Cincinnati, Ohio, with 15 facilities located throughout the United States and Canada. As at June 30, 2006, the company had 1,800 employees. Annual revenue is US$0.3 billion.

Thomas & Betts Corporation is a designer and manufacturer of electrical components used in industrial, commercial, communications, and utility markets. The company is also a producer of highly-engineered steel structures, used primarily for utility transmission, and commercial heating units. It has operations in approximately 20 countries. Manufacturing, marketing and sales activities are concentrated primarily in North America and Europe. As of December 31, 2006, the company had approximately 9,000 full-time employees worldwide, of which approximately 50% work in foreign subsidiaries. Annual revenue is US$1.9 billion.

Carmanah Technologies Corporation is a integrator of renewable and energy-efficient technology solutions. The company is currently focused on three technology groups: solar-powered LED lighting, solar power systems (off grid and grid tie), and LED illuminated signage. Carmanah's headquarters and primary manufacturing facilities are in Victoria, British Columbia with an additional manufacturing facility in Calgary, Alberta. As of December 31, 2006, the company had approximately 240 full-time employees. Annual revenue is $62.4 million.

We have used the consensus forecasts and target prices provided by Thomson One Analytics for our six comparable companies to arrive at weighted average multiples for P/Revenue, P/EBITDA and P/E. (see table overleaf)

Table 2. Divcom Peer Comparison

CDN$ (unless otherwise noted) Name of Company	Stock Symbol	Recent Price	52 week High	52 week Low	Mkt Cap $Mils	Shares o/s Mils	Enterprise Value $Mils	Year End
Cooper Industries Ltd.$US	**CBE**	$58.01	$58.63	$39.98	$10,618	183.0	$11,325	Dec-31
Hubbell Inc. $US	**HUB.B**	$55.95	$57.20	$43.34	$3,340	59.7	$3,479	Dec-31
Genlyte Group Inc. $US	**GLYT**	$82.03	$87.90	$62.88	$2,331	28.4	$2,403	Dec-31
LSI Industries Inc. $US	**LYTS**	$18.28	$20.81	$12.83	$393	21.5	$415	Jun-30
Thomas & Betts Corp. $US	**TNB**	$61.07	$61.95	$42.30	$3,553	58.2	$3,569	Dec-31
Carmanah Technologies Corp.	**CMH**	$2.84	$3.60	$2.05	$121	42.5	$118	Dec-31
Divcom Lighting Inc.	**DVQ**	$0.28	$0.50	$0.25	$12	43.7	$27	Dec-31

Name of Company (Year End)	Revenue ($mils) 2006	Revenue ($mils) Trailing	EV/Revenue 2005	EV/Revenue Trailing	Trailing 4 Quarters Revenue/ Share	Trailing 4 Quarters Price/ Revenue	Trailing 4 Quarters EBITDA /Share	Price/ EBITDA
Cooper Industries Ltd.$US	$5,184.6	$5,337.7	2.16x	2.12x	$28.54	2.03x	$4.54	12.8x
Hubbell Inc. $US	$2,414.3	$2,467.0	1.45x	1.41x	$40.51	1.38x	$4.89	11.4x
Genlyte Group Inc. $US	$1,484.8	$1,550.0	1.62x	1.55x	$53.68	1.53x	$9.09	9.0x
LSI Industries Inc. $US	$280.5	$315.4	1.48x	1.32x	$14.61	1.25x	$1.71	10.7x
Thomas & Betts Corp. $US	$1,868.7	$1,901.4	1.95x	1.88x	$31.34	1.95x	$4.88	12.5x
Carmanah Technologies Corp.	$62.4	$64.7	1.89x	1.83x	$1.51	1.88x	$0.05	52.0x
Weighted Avg. multiple			***1.89x***	***1.83x***		***1.63x***		***11.1x***
Divcom Lighting Inc.	$42.7	$41.7	0.65x	0.65x	$0.95	0.29x	$0.06	4.9x

Name of Company (Year End)	Cash $mils	Debt $mils	EBITDA ($mils) 2006	EBITDA ($mils) Trailing	EV/EBITDA 2006	EV/EBITDA Trailing	EPS Trailing	P/E Trailing
Cooper Industries Ltd.$US	$304.8	$1,011.3	$810.9	$849.9	13.8x	13.3x	$2.61	22.2x
Hubbell Inc. $US	$81.2	$220.2	$292.3	$297.8	12.0x	11.7x	$2.63	21.3x
Genlyte Group Inc. $US	$76.7	$147.9	$247.2	$262.4	9.7x	9.2x	$4.87	16.8x
LSI Industries Inc. $US	$1.6	$24.1	$28.8	$36.9	14.4x	11.3x	$0.85	21.6x
Thomas & Betts Corp. $US	$371.3	$387.6	$296.1	$295.9	12.3x	12.1x	$2.86	21.4x
Carmanah Technologies Corp.	$4.3	$1.9	$2.8	$2.3	41.9x	50.9x	-$0.01	n/a
Weighted Avg. multiple					***12.7x***	***12.2x***		***19.9x***
Divcom Lighting Inc.	$0.1	$15.1	$2.9	$2.5	9.6x	10.8x	-$0.01	n/a

Source: eResearch

The following is a summary of the multiples and respective target prices for each of the valuation parameters:

Table 3. 2008 Forecast

2008 Forecast	Target Price	Revenue /Share	EBITDA /Share	EPS	P/ Revenue	P/ EBITDA	P/E
Cooper Industries Ltd.$US	$57.89	$33.52	$5.56	$3.47	1.73x	10.4x	16.7x
Hubbell Inc. $US	$57.60	$45.73	$5.46	$3.63	1.26x	10.5x	15.9x
Genlyte Group Inc. $US	$90.00	$61.12	$9.66	$5.60	1.47x	9.3x	16.1x
LSI Industries Inc. $US	$19.33	$17.13	$1.72	$1.07	1.13x	11.2x	18.1x
Thomas & Betts Corp. $US	$65.00	$35.83	$6.13	$3.64	1.81x	10.6x	17.9x
Carmanah Technologies Corp.	$2.77	$2.17	$0.22	$0.12	1.27x	12.7x	23.1x
Weighted Average					**1.50x**	**10.2x**	**16.7x**

Source: Thompson One Analytics

Table 4. Divcom Forecasted Earnings

Divcom Lighting Inc.
Based on 2008 forecasted earnings:

	2008E	Median Multiples**	Divcom Multiples	Target Prices
Revenue per share	$1.07	1.50x	0.60x	$0.64
EBITDA per share	$0.12	10.2x	7.5x	$0.90
Earnings per share	$0.03	16.7x	8.5x	$0.26
Average Target Price				**$0.60**

Notes:
*** based on forecasted target prices and revenue per share, EBITDA per share and earnings per share of the Comparables, shown above.*

Source: eResearch

The simple average of the above price targets from the various valuation parameters, which ranged from $0.26 to $0.90, is $0.60. We have used lower multiples for each of the parameters. We have used a Price/Revenue multiple of 0.60x, which is the approximately the trailing multiple for Divcom. We have used Price/EBITDA multiple of 7.5x and P/E multiple of 8.5x, which reflect the size of Divcom relative to the larger capitalization comparable, the market share and the challenges of breaking into the U.S. market or expanding into the U.S. Accordingly, our 12-month Target Price is $0.60 and our recommendation is a Speculative Buy.

FINANCIAL REVIEW AND OUTLOOK

Revenue: Revenue decreased by 11.5% to $7.4 million for the 3 month period ended February 28, 2007 compared to $8.4 million in the previous year. The Industrial segment saw growth of 1.6%, while the Retail segment decreased by 14.2%. The first revenues were negatively affected by the long winter and the delay in customers making spring order placements. Divcom's order backlog stood at $1.2 million.

Geographic Breakdown: Canadian revenue representing 44% of total revenue increased by only 4.3% in first quarter 2007, while U.S. revenue representing 56% of total revenue, decreased by 21%. U.S. retail sales were negatively affected by deferred shipping dates and delays in order activity. Adjusta Post (U.S.) recently secured new coastal programs with a US Big Box store and will commence shipping product to them in the second quarter 2007.

Table 5. Revenues - Geographic Breakdown

	3 months	3 months					
	28-Feb	28-Feb	Year Ending November 30				
($000)	**2006**	**2007**	**2004**	**2005**	**2006**	**2007E**	**2008E**
Canada	3,111	3,245	12,927	18,244	18,552	19,000	20,000
United States	5,213	4,120	4,860	5,875	24,150	24,500	27,000
Total	8,324	7,365	17,787	24,119	42,702	43,500	47,000
Mix %							
Canada	37%	44%	73%	76%	43%	44%	43%
United States	63%	56%	27%	24%	57%	56%	57%
Total	100%	100%	100%	100%	100%	100%	100%
Growth Yr/Yr %							
Canada		4%	628%	41%	2%	2%	5%
United States		-21%	69%	21%	311%	1%	10%
Total		-12%	283%	36%	77%	2%	8%

Source: eResearch

Business Segments: Retail segment representing 81% of total revenue declined by 14% primarily due to deferred shipping dates and delays in order activity, while the industrial segment representing 19% of total revenue increased by 1.6%. The Industrial segment has a higher EBITDA margin of over 10%. Although, the Retail segment had an average EBITDA margin of close to 3.5% in the last two years, we expect that the margin will return to the 9-12% range experienced in 2003 and 2004 as a result of the restructuring of the operations into the four power centres. Management estimates that the restructuring will benefit the Company by approximately $1 million annually due to reduced SG & A expenses.

Table 6. Revenues - Business Segments

Revenues Business Segments ($000)	3 months Feb. 28 2006	3 months Feb. 28 2007	Year Ending November 30 2004	2005	2006	2007E	2008E
Retail	6,941	5,952	13,281	19,814	37,244	36,540	38,500
Industrial	1,370	1,392	4,452	4,256	5,409	6,895	8,450
Other	13	21	54	49	49	65	50
Total	8,324	7,365	17,787	24,119	42,702	43,500	47,000
Mix %							
Retail	83%	81%	75%	82%	87%	84%	82%
Industrial	16%	19%	25%	18%	13%	16%	18%
Other	0%	0%	0%	0%	0%	0%	0%
Total	100%	100%	100%	100%	100%	100%	100%
Growth Yr/Yr %							
Retail		-14%	986%	49%	88%	-2%	5%
Industrial		2%	30%	-4%	27%	27%	23%
Other		n/a	n/a	n/a	0%	n/a	n/a
Total		-12%	283%	36%	77%	2%	8%

Source: eResearch

Cash: Divcom had a cash balance of $156,000 as at February 28, 2007. We expect that the cash position will increase to $191,000 by the end of 2007.

Debt: Divcom has the following credit facilities:

- The Canadian bank credit facility has been approved to a maximum of $5,250,000. The credit facility bears interest at the bank's prime rate.
- The U.S. bank credit facility has been approved to a maximum of US$4,000,000. The credit facility bears interest at the prime rate plus 0.25%.
- A 9% convertible debenture in the amount of $250,000 issued on February 10, 2003 which matures on February 10, 2008. The debenture is convertible into common shares at the option of the holder at $0.3375 per common share if converted between February 11, 2007 and February 10. 2008. No conversions have yet been made. If all debentures are converted, the dilutive effect is immaterial. .

Divcom is in good standing with all of its credit facilities.

	2004	2005	2006	2007E	2008E
Interest Coverage (EBITDA/Interest)	4.1x	4.9x	2.7x	3.2x	4.0x
Net Debt/EBITDA	1.66x	2.23x	3.97x	3.29x	2.55x

Divcom 's debt ratios will show an improvement in 2007 and 2008, with Interest Coverage improving to 4.0x in 2008 from 2.7x in 2006 and Net Debt/EBITDA reducing to from relative high of 3.97x in 2006 to 2.55x in 2008.

Capital Structure: There are currently 43.7 million shares outstanding, of which insiders own about 24% and institutions own about 20%. At current prices, the Company has a market capitalization of $12 million.

Warrants and Options: Divcom has the following warrants and options outstanding:

Table 7. Warrants and Options

1. Warrants

Number	Exercise Price	Expiry Date	Comment	Potential Equity
1,300,000	$0.40	31-Dec-08	Out-of-the-money	$520,000
1,300,000				$520,000

2. Options

Number	Exercise Price	Expiry Date	Comment	Potential Equity
740,000	$0.35	1-Oct-08	Out-of-the-money	$259,000
610,000	$0.40	15-Nov-09	Out-of-the-money	$244,000
1,205,000	$0.35	4-May-10	Out-of-the-money	$421,750
500,000	$0.40	4-May-10	Out-of-the-money	$200,000
3,055,000				$1,124,750

Note: The entries in italics are within our 12-month forecast period.

Source: Company and eResearch

Financial Statements and Forecast/Assumptions: The table set out below shows abridged financial statements of income/(loss); cash flow; and the balance sheet and forecast for 2007 and 2008.

Our forecast for 2007 and 2008 incorporates the following assumptions:

1. Total revenue is expected to increase by 2% in 2007 and by 8% in 2008, all of which is expected to be organic. We expect to see Canadian revenue grow by 2% to $19 million in 2007 and by 5% to $20 million in 2008. The revenue in the United States is expected to increase by 1% to $24.5 million in 2007 and increase by 10% to $27 million in 2008. We expect that the recent contract with the U.S. Big Box store and such contracts will improve the U.S. sales momentum in 2008.

2. We expect to see a significant improvement in net income in 2007 and further improvement in 2008, primarily due to an improved EBITDA margin. We expect the EBITDA margin to increase to 9.7% in 2007 from 8.5% in 2006, primarily due to the operating expense savings expected from the restructuring that occurred in 2006. We expect a further improvement in EBITDA margin to 10.9% in 2008.

3. Our forecast model does not include any future acquisitions or major contract wins.

The following are some of the risks which could affect our forecast:

1. Since, the Company engages in acquisitions, it may encounter difficulties in integrating these businesses with existing operations, and may not realize the degree or timing of the distribution benefits that they anticipated from an acquisition.

2. The Company sources products and product materials from various suppliers located in countries throughout the world and a disruption in the availability or price of these products could impact its operating results.

3. The lighting business is highly competitive with more than 5 significant participants operating in North America.

4. The overall strength or weakness of construction activity, and the commercial, residential, and industrial lighting markets can be volatile. The Company's sales, like those of the lighting fixture industry in general, depend significantly on the level of activity in new construction and remodeling.

Table 8. Selected Financial Statements

($000)	Three months ending Feb. 28		Year Ending November 30				
Statement of Income/(Loss):	**2006**	**2007**	**2004**	**2005**	**2006**	**2007E**	**2008E**
Revenues	8,324	7,365	17,787	24,119	42,702	43,500	47,000
Cost of good sold	(5,219)	(4,858)	(10,039)	(13,519)	(25,945)	(27,225)	(28,825)
Gross margin	3,105	2,507	7,748	10,600	16,757	16,275	18,175
Gross margin %	37%	34%	44%	44%	39%	37%	39%
Adminstrative & selling	(2,390)	(2,128)	(6,027)	(7,817)	(13,013)	(12,000)	(13,000)
Stock based compensation	-	(30)	-	(40)	(94)	(75)	(75)
Operating profit (EBITDA)	715	349	1,721	2,743	3,650	4,200	5,100
EBITDA margin %	8.6%	4.7%	9.7%	11.4%	8.5%	9.7%	10.9%
Amortization	(303)	(326)	(806)	(1,046)	(1,444)	(1,580)	(1,775)
Interest	(273)	(399)	(425)	(563)	(1,366)	(1,325)	(1,275)
Net income/(loss) before taxes	139	(376)	490	1,134	840	1,295	2,050
Other expenses	-	-	(356)	-	(762)	-	-
Income taxes	(35)	136	(87)	(320)	(34)	(453)	(718)
Net income/(loss)-continuing operations	104	(240)	47	814	44	842	1,333
Discontinued operations	-	-	(175)	(172)	-	-	-
Net income/(loss)	104	(240)	(128)	642	44	842	1,333
Shares Outstanding (000s)	43,520	43,692	40,538	41,270	43,845	43,692	43,692
Average Shares (fully diluted) (000s)	43,743	43,751	38,714	42,605	45,118	43,751	43,751
Earnings (Loss) Per Share	$0.002	($0.005)	$0.001	$0.019	$0.001	$0.019	$0.030
Statement of Cash Flow:							
Net Loss - continuing operations	104	(240)	47	814	44	842	1,333
All Non-Cash Items	269	265	850	1,120	1,252	1,580	1,775
Cash Flow from Operations	373	25	897	1,934	1,296	2,422	3,107
Cash Flow/Share	*$0.01*	*$0.00*	*$0.02*	*$0.05*	*$0.03*	*$0.06*	*$0.07*
Capital Expenditures	(341)	(309)	(732)	(1,875)	(2,005)	(1,200)	(1,500)
Other Investing Items	(5,150)	(35)	(5,494)	(726)	(6,234)	(400)	(500)
Free Cash Flow	(5,118)	(319)	(5,329)	(667)	(6,943)	822	1,108
Working Capital Changes	(798)	(1,069)	(2,529)	(1,334)	88	(80)	(276)
Debt Financing	5,586	1,527	1,917	(250)	6,543	(568)	(570)
Equity Financing	-	(66)	7,706	141	(225)	(66)	-
(Decrease) increase in cash	(330)	73	1,765	(2,110)	(537)	108	262
Increase in cash from discontinued	-	-	253	-	-	-	-
(Decrease) increase in cash	(330)	73	2,018	(2,110)	(537)	108	262
Cash, Beginning of the Period	620	83	712	2,730	620	83	191
Cash, End of the Period	290	156	2,730	620	83	191	453

	As at February 28		As at November 30				
	2006	**2007**	**2004**	**2005**	**2006**	**2007E**	**2008E**
Balance Sheet:							
Cash	290	156	2,730	620	83	191	453
Accounts Receivable	6,309	6,104	4,643	4,823	7,637	6,500	7,500
Inventories	7,646	9,244	3,816	4,630	8,017	9,300	9,500
Other current assets	2,553	2,932	2,046	1,907	2,269	2,500	2,600
Current Assets	16,798	18,436	13,235	11,980	18,006	18,491	20,053
Capital Assets	10,262	10,981	7,113	7,999	10,953	12,153	13,653
Goodwill & intangibles	10,481	9,793	8,219	8,276	9,775	9,650	9,600
Other Assets	1,703	1,708	1,005	1,510	1,736	1,700	1,700
Total Assets	39,244	40,918	29,572	29,765	40,470	41,994	45,006
Accounts payable	4,640	5,627	3,314	3,139	6,401	6,000	6,500
Bank indebtedness	5,425	8,440	2,377	3,233	6,798	6,571	6,343
Current portion of long term debt	339	570	329	356	568	570	575
Other liabilities	1,274	920	1,180	890	533	533	533
Total Current Liabilities	11,678	15,557	7,200	7,618	14,300	13,674	13,951
Long term debt	6,569	7,085	2,886	3,152	7,216	6,875	6,533
Other payables	3,085	1,744	3,665	2,347	2,146	3,861	5,606
Total Liabilities	21,332	24,386	13,751	13,117	23,662	24,410	26,090
Shareholders' Equity	17,912	16,532	15,821	16,648	16,808	17,584	18,916
Total Liabilities & Equity	39,244	40,918	29,572	29,765	40,470	41,994	45,006
Book Value (S.E.) Per Share	$0.41	$0.38	$0.39	$0.40	$0.38	$0.40	$0.43

Source: Company and eResearch

APPENDIX I

Management and Directors

Aslam Khatri, Chief Executive Officer, Co-Founder
Aslam Khatri has been CEO of the Company since April 1999 prior to 2000, when Divcom was taken public. He was a former Director and CFO at Kaufel Group Ltd., a major international lighting company. In that time, he assisted with over 20 acquisitions in North America and Europe.

Joey Khatri, Vice-President, Co-Founder
Joey Khatri is responsible for sales, marketing and new product development programs, and for the implementation of a North American sales network for both esidential and commercial product lines. He has experience in the lighting industry, having previously worked at Kaufel Group Ltd.

Diane Khatri, Senior Vice-President, Co-Founder
Diane Léger-Khatri handles all administrative aspects for Divcom. She formerly owned her own textile product manufacturing company.

Deric Vourantonis, CA, Vice-President, Finance
Deric Vourantonis joined the Company from his own private accounting practice. Previous to this, he had spent 10 years at Howarth Appel where he specialized in inventory valuation and control. He received his bachelor's degree in accounting from Concordia University, and subsequently obtained his CA designation.

Jean Larouche, Chief Operating Officer - President, SNOC Inc.
Jean Larouche is the President of SNOC Inc. (Divcom's largest subsidiary). He acquired SNOC in 1991 from a major lighting company. He has over 30 years experience in the lighting industry, of which 17 years were spent at Lightolier where he served as Vice-President of Finance.

Orfellio Lalli, Eng, Vice-President, Engineering
Orfellio Lalli is responsible for all engineering functions at the Company. He had spent 21 years at Lightolier and 10 years at SNOC, where he served as Vice-President of Engineering. Mr. Lalli obtained his engineering degree from McGill University.

APPENDIX II

North American Lighting Industry Trends

The U.S. Federal government has been encouraging energy conservation and efficiency in passing the Energy Policy Act of 2005. One provision of this act relates to "Commercial Building Tax Deduction" which has and will continue to provide an incentive for owners of commercial buildings to make their buildings more energy efficient.

Commercial Building Tax Deduction - The National Electrical Manufacturers Association (NEMA) and the Natural Resources Defense Council (NRDC) have lobbied the U.S. federal government to provide incentives for owners to make commercial building more energy efficient. This resulted in the passing of the Energy Policy Act of 2005. A provision of this act allows a tax deduction for energy-efficient commercial buildings that reduce annual energy and power consumption by 50% compared to the American Society of Heating, Refrigerating, and Air Conditioning Engineers (ASHRAE) 2001 standard. The deduction would equal the cost of energy-efficient property installed during construction, with a maximum deduction of $1.80 per square foot of the building. Additionally, a partial deduction of 60 cents per square foot would be provided for building subsystems. The provision is effective for property placed in service from January 1, 2006 through to December 31, 2008 .

On February 6, 2007, Royal Philips Electronics NV announced that it has comleted the acquisition of Partners in Lighting International ("PLI"). PLI is a European market leader in home luminaries. It develops, manufactures and markets a broad portfolio of more than 10,000 distinct home lighting luminaries under the brand names such as Massive, TRIO and Lirio, and concepts like Aqua, LED and Cucina.

On March 17, 2007, the Lighting Efficiency Coalition announced that one of its leading members, Royal Philips Electronics NV announced that it has agreed to be the first lighting manufacturer in North America to seek a phase-out of inefficient incandescent light bulbs by 2016. The coalition supports phase-out of inefficient lamps through the substitution of existing energy-efficient alternatives, including compact fluorescent lamps (CFLs) and energy-saving halogen lamps, as well and light emitting diode (LED) lamps. This announcement follows the recent introduction of legislation in California, North Carolina and Rhode Island to ban the sale of incandescent bulbs.

On April 18, 2007, the Government of Ontario announced that it is banning inefficient light bulbs by 2012. In conjunction with this announcement, a coupon and incentive brochure is being mailed to every household in Ontario. The program provides for compact fluorescent bulbs (CFL), ceiling fans, timers and other energy saving devices. The Ontario ban follows a recent announcement made by the Australian
government that requires incandescent bulbs be replaced with CFLs by 2010.

The lighting industry is also looking at the phasing out of inefficient incandescent light bulbs and encouraging the use of energy-efficient alternatives like florescent lamps. The U.S. Federal government passed new legislation "Energy Savings Act of 2007" on May 7. 2007 to address some of the issues of lighting inefficiency.

On May 14. 2007, TIR Systems Ltd. reported that court approved the statutory pan of arrangement with Philips Electronics Ltd., a subsidiary of Royal Philips Electronics NV. Philips Electronics agreed to acquire 100% of the common shares of TIR Systems. TIR Systems, based in Vancouver, Canada, is a supplier of specialized Solid Sate Lighting (SSL) technology and products for high quality white light. In addition to products sold into the architectural and corporate identity markets through its established sales channels, TIR developed its Lexel technology which is a fully integrated SSL light source designed to be analogous to a conventional lamp, socket and ballast for ease of adoption by lighting manufacturers.

On June 22, 2007, the European Lamp Companies Federation (ELC) which represents 95% of all lamp production in Europe announced that they would phase out the inefficient light bulb by 2015. ELC proposed that the phase-out takes place in two-year stages with a ban on 100 Watt bulbs in 2009 and finishing with a ban on 25 Watt bulbs in 2015.

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Each Research Analyst who was involved in the preparation of this Research Report hereby certifies that: (1) the views, opinions, and recommendations expressed in this Research Report reflect accurately the Research Analyst's personal views concerning any and all securities and issuers that are discussed herein and are the subject matter of this Research Report; and (2) the fees, earnings, or compensation, in any form, payable to the Research Analyst, is not and will not, directly or indirectly, be related to the specific views, opinions, and recommendations expressed by the Research Analyst in this Research Report.

eResearch analysts on this report:

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Strong Buy: Expected total return within the next 12 months is at least 40%.

Buy: Expected total return within the next 12 months is between 10% and 40%.

Speculative Buy: Expected total return within the next 12 months is substantial, but Risk is High (see below).

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Sell: Expected total return within the next 12 months is negative.

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A company may have some, but not necessarily all, of the following characteristics of a specific risk rating to qualify for that rating:

High Risk: *Financial* - Little or no revenue and earnings, limited financial history, weak balance sheet, negative free cash flows, poor working capital solvency, no dividends.

Operational - Weak competitive market position, early stage of development, unproven operating plan, high cost structure, industry consolidating, business model/technology unproven or out-of-date.

Medium Risk: *Financial* - Several years of revenue and positive earnings, balance sheet in line with industry average, positive free cash flow, adequate working capital solvency, may or may not pay a dividend.

Operational - Competitive market position and cost structure, industry stable, business model/technology is well established and consistent with current state of industry

Low Risk: *Financial* - Strong revenue growth and earnings over several years, stronger than average balance sheet, strong positive free cash flows, above average working capital solvency, company may pay (and stock may yield) substantial dividends or company may actively buy back stock.

Operational - Dominant player in its market, below average cost structure, company may be a consolidator, company may have a leading market/technology position.

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