Devonshire Industries Limited

Consolidated Financial Statements
March 31, 2007

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Auditors' Report

To the Shareholders of
Devonshire Industries Limited

We have audited the consolidated balance sheet of Devonshire Industries Limited as at March 31, 2007 and the consolidated statements of income and retained earnings and of 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 audit.

We conducted our audit in accordance with auditing standards generally accepted in Bermuda and Canada. 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.

As described in note 4, the land and buildings were restated at appraised value in 1976, 1981 and 1992. The adjustments in 1976 and 1981 were not deemed to be departures from generally accepted accounting principles. With effect from 1991, generally accepted accounting principles preclude restating property, plant and equipment at appraised value, and therefore the restatement in 1992 is not in accordance with generally accepted accounting principles. If the land and buildings had not been restated at the 1992 appraised value, depreciation and the realization of the excess of appraised value of property, plant and equipment over depreciated cost would be decreased by $20,000, net income would be increased by $20,000, and property, plant and equipment and the excess of appraised value of property, plant and equipment over depreciated cost would be decreased by $305,000.

In our opinion, except for the effects of restating land and buildings at appraised value in 1992 as described in the preceding paragraph, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at March 31, 2007 and the results of its operations and cash flows for the year then ended in accordance with accounting principles generally accepted in Bermuda and Canada.

PricewaterhouseCoopers

Chartered Accountants

Devonshire Industries Limited

Consolidated Balance Sheet

As at March 31, 2007

	2007 $	2006 $
Current assets		
Cash and time deposits	1,056,428	1,037,762
Accounts receivable - trade	355,724	319,819
- other	33,100	14,516
Inventories (note 3)	716,612	655,196
Prepaid expenses	114,521	95,782
	2,276,385	2,123,075
Property, plant and equipment (note 4)	866,466	945,733
	3,142,851	3,068,808
Current liabilities		
Accounts payable and accrued liabilities	187,928	184,765
Shareholders' equity		
Capital stock		
Authorised -		
456,000 common shares of a par value of $0.50 each		
Issued and fully paid -		
438,000 (2006 - 438,000) common shares	219,000	219,000
Contributed surplus	56,790	56,790
Share premium (note 5)	42,179	42,179
Excess of appraised value of property, plant and equipment over depreciated cost (note 5)	389,461	415,965
Retained earnings	2,247,493	2,150,109
	2,954,923	2,884,043
	3,142,851	3,068,808

Approved by the Board of Directors

____________________ Director   ____________________ Director

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

Devonshire Industries Limited

Consolidated Statement of Income and Retained Earnings

For the year ended March 31, 2007

	2007 $	2006 $
Sales	3,641,120	3,532,422
Cost of sales	2,105,245	2,105,158
Gross margin (2007 – 42.2%; 2006 – 40.4%)	1,535,875	1,427,264
Administrative and selling expenses	1,068,805	1,087,130
Operating income	467,070	340,134
Other income	41,810	55,605
Net income for the year	508,880	395,739
Retained earnings - Beginning of year	2,150,109	2,165,866
Realisation of the excess of appraised value of property, plant and equipment over depreciated cost (note 4)	26,504	26,504
	2,685,493	2,588,109
Dividends	438,000	438,000
Retained earnings - End of year	2,247,493	2,150,109
Net income per share	1.16	0.90

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

Devonshire Industries Limited

Consolidated Statement of Cash Flows

For the year ended March 31, 2007

	2007 $	2006 $
Cash flows from operating activities		
Net income for the year	508,880	395,739
Add items not affecting cash:		
Depreciation	107,085	112,770
Changes in non-cash working capital items:		
Accounts receivable - trade and other	(54,489)	11,910
Inventories	(61,416)	103,921
Prepaid expenses	(18,739)	(5,818)
Accounts payable and accrued liabilities	3,163	40,899
Cash provided by operating activities	484,484	659,421
Cash flow from investing activity		
Purchase of property, plant and equipment	(27,818)	(50,957)
Cash flow from financing activity		
Dividends paid	(438,000)	(438,000)
Decrease in cash and time deposits	18,666	170,464
Cash and time deposits - beginning of year	1,037,762	867,298
Cash and time deposits - end of year	1,056,428	1,037,762
Cash and time deposits consist of:		
Cash	132,688	308,643
Time deposits	923,740	729,119
	1,056,428	1,037,762

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

1. *Nature of business*

Devonshire Industries Limited ("the company") and Bermuda Paint Company Limited ("the subsidiary") (note 2(a)) are incorporated under the laws of Bermuda and are primarily engaged in the management of the Bermuda Paint Company Limited. The Company is listed on the Bermuda Stock Exchange.

2. *Significant accounting policies*

The accompanying financial statements are in accordance with accounting principles generally accepted in Bermuda and Canada. The preparation of these financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts of assets, liabilities and disclosure of contingent assets and liabilities as at the date of the financial statements. Estimates also affect the reported amounts of income and expenses for the reporting period. Actual results could differ from those estimates. Outlined below are those policies considered particularly significant.

(a) **Principles of consolidation**
These consolidated financial statements include the financial statements of Devonshire Industries Limited and its wholly-owned subsidiary, Bermuda Paint Company Limited. All significant inter-company transactions and balances are eliminated on consolidation.

(b) **Inventories**
Inventories are carried at the lower of cost (either average or actual cost as appropriate to the class of inventory) and net realizable value.

(c) **Property, plant and equipment**
Property, plant and equipment are carried at cost or appraised value, less accumulated depreciation. Depreciation is charged on a straight-line basis, unless noted below, over the estimated useful lives of the assets as follows:

Buildings (based on gross book value after appraisals (note 4))	4%
Factory forklift and electrical improvements	10%
Factory and office equipment (diminishing balance method)	15%
Motor vehicles	20%
Computers	25%

(d) **Revenue recognition**
Sales comprise the fair value of the consideration received for the sale of products in the ordinary course of the company's activities.

(e) **Cash and time deposits**
Cash and time deposits include deposits having a maturity of less than three months.

3. *Inventories*

Inventories are classified as follows:

	2007 $	2006 $
Raw materials	325,243	286,382
Finished goods	391,369	368,814
	716,612	655,196

4. *Property, plant and equipment*

	2007			2006
	Cost or appraised value $	Accumulated depreciation $	Net $	Net $
Land (appraised value)	225,000	-	225,000	225,000
Buildings (appraised value)	766,035	446,073	319,962	350,601
Improvements (cost)	264,187	140,138	124,049	135,103
Factory equipment (cost)	650,109	512,611	137,498	152,175
Office equipment (cost)	141,212	107,287	33,925	27,057
Motor vehicles (cost)	90,413	75,077	15,336	29,804
Computer (cost)	101,683	90,987	10,696	25,993
	2,238,639	1,372,173	866,466	945,733

Depreciation in the amount of $107,085 (2006 - $112,770) has been charged against income during the year of which $18,203 (2006 - $22,004) is included in the calculation of cost of sales.

In 1976, 1981 and 1992 the land and buildings were appraised. In 1992, the value of the land and buildings was appraised by Woodbourne Associates Ltd. The person who carried out the appraisal is also a director of the company. The revaluation resulted in an increase in the excess of appraised value of property, plant and equipment over depreciated cost of $601,633 (note 5). The excess of the appraised value over depreciated cost is included in shareholders' equity. The portion of the depreciation for the year of $26,504 (2006 - $26,504) which represents the realization of the appraisal increase has been transferred to retained earnings (note 5).

5. *Shareholders' equity*

(a) **Share premium**
The share premium balance relates to the excess over par value of shares of the company sold for cash.

(b) **Excess of appraised value of property, plant and equipment over depreciated cost**

	2007 $	2006 $
Balance - Beginning of year	415,965	442,469
Portion realised through depreciation based upon appraised values	(26,504)	(26,504)
Balance - End of year	389,461	415,965

6. *Pension plan*

The company and its subsidiary have an administered defined contribution pension plan for their employees. Pension benefits are determined as a function of accumulated contributions made by both the companies and the employees. The companies contributions are charged against income in the year contributed. The pension expense for the year was $32,581(2006 - $34,056).

7. *Financial instruments*

The estimated fair value of cash and time deposits, accounts receivable - trade, accounts receivable-other and accounts payable and accrued liabilities approximate their carrying values.

8. *Directors' share interests and service contracts*

The total interests of all the directors and officers of the company in the shares of the company at March 31, 2007 were 96,082 (2006 - 96,942) shares. No rights to subscribe for shares in the company have been granted to or exercised by any director or officer.

There are no service contracts with directors.

Devonshire Industries Limited

Summary of Financial Information

For the year ended March 31, 2007

The following represents the results of operating and financial position for the past five years:

	Year ended December 31				
	2007	**2006**	**2005**	**2004**	**2003**
	$	**$**	**$**	**$**	**$**
Assets	3,142,851	3,068,808	3,070,170	3,142,445	3,124,430
Liabilities	187,928	184,765	143,866	129,038	137,951
Shareholders' equity	2,954,923	2,884,043	2,926,304	3,013,407	2,986,479
Net earnings	508,880	395,739	350,897	464,928	328,743