Teknion

06 Annual Report

Small moves. Big shift.

A flap of a butterfly's wings in Brazil can set off a tornado in Texas. What does that mean to us?

Small, seemingly modest acts can cause major shifts in behavior. The quiet energy of a butterfly's wings can be a catalyst for resonant change.

From the first GreenWorks team and our attainment of ISO 14001, Teknion has taken many small steps that keep us moving forward in our commitment to sustainability.

Our focus on training and increasing the understanding of the impact each individual can make by reducing waste and waste diversion has led to significant cost savings. This concept of waste is slowly evolving as we learn how to do more with what we have and how to use byproduct in new and useful ways.

Working in this manner, we are able to continually identify and implement measures that help us go beyond basic support of government policy and initiatives regarding emissions and climate change awareness.

We do all this with the knowledge that what was true of our first initiative will hold true for our most recent: Focusing on sustainability is good for the environment and it is also good for business. Understanding that connection is the key to unlocking the innovation necessary to push sustainable development into the next decade.

According to David Feldberg, President and CEO, "Sustainable development will move forward with companies being transparent about how their products are made and how they are streamlining their manufacturing processes to lower waste and energy. At Teknion our approach is to be ourselves, to admit we don't know everything, to ask questions and talk to others. We have gained the trust of our employees and customers by doing so."

We move forward, with each step, like the flap of the butterfly's wings, producing a multitude of effects.

Teknion is a leading international designer, manufacturer and marketer of office systems and related products for the contract segment of the office furniture industry. We are the market share leader in Canada, with an expanding presence overseas, and over the past decade have been among the fastest growing major office furniture companies in the United States.

Financial Highlights

(000 except per share amounts) Years ended November 30	2006	2005	2004	2003	2002
STATEMENT OF EARNINGS DATA					
Sales	**$ 631,254**	$ 606,183	$ 497,345	$ 502,788	$ 525,800
EBITDA*	**32,693**	24,093	6,970	(22,591)	(26,374)
Earnings (loss) from operations	**14,097**	5,411	(15,119)	(49,435)	(54,636)
Net earnings (loss)	**3,501**	(20,654)	(17,810)	(30,112)	(32,006)
Earnings (loss) per share (basic)	**$ 0.05**	$ (0.32)	$ (0.28)	$ (0.47)	$ (0.50)

(000 except per share amounts) Years ended November 30	2006	2005	2004	2003	2002
BALANCE SHEET DATA					
Total assets	**$ 398,050**	$ 394,847	$ 386,053	$ 412,125	$ 463,589
Net debt**	**78,491**	70,419	53,234	46,867	51,805
Shareholders' equity	**217,016**	213,442	234,533	256,744	290,139

* EBITDA is a non-GAAP financial measure and is defined as earnings before interest, income taxes, depreciation and amortization and loss on asset held for sale.

** Net debt is defined as operating loans plus long-term debt and capital lease obligations (including current portion) less cash.

Dear fellow shareholders,

We are truly pleased to be able to report to you this year on our improved financial performance and the success of our operations. For the first time since 2001, we achieved positive net income, earning \$3.5 million on \$631 million of sales and generating \$33 million of EBITDA. For the second consecutive year we grew our sales in all our markets – the U.S., Canada and International.

The depreciation of the U.S. dollar served to mask our gains somewhat. We estimate that this deterioration cost us \$13 million in 2006 alone.

Obviously, the rapid deterioration in the U.S./Canadian dollar exchange rate (from an average of \$1.57 in 2002 to \$1.13 in 2006) has required that we make substantial changes to our operations. The significant improvement in our EBITDA each year for the past four consecutive years is a testament to our ability to make the necessary adjustments.

We have consistently focused on lowering our cost structure – being careful not to jeopardize those aspects of our operations that are critical to servicing customers – and on developing new products essential to our long-term profitability and growth. In 2006, as in past years, we carefully managed our SG&A expenditures, and as a percentage of sales, SG&A (at less than 23%) reached its lowest level since 1999. We also continued to successfully implement our program of continuous improvement in our manufacturing group – increasing our gross margin despite the challenges posed by currency and commodity prices.

At the same time, we have continued to aggressively extend the depth and breadth of our product range in order to leverage our distribution. We have worked closely with our dealers to provide our customers with an even more comprehensive offering of innovative, integrated, design-driven office furniture. This strategy has allowed us to successfully broaden our customer base over the past few years, particularly in the U.S., which remains our largest market opportunity.

In 2006, we continued to see the benefits of this approach as second-quarter sales in the U.S. exceeded those in the first quarter by 20%, third-quarter sales exceeded those in the second quarter by 10% and fourth-quarter sales exceeded third-quarter revenues by 22%.

However, our growth was not driven by the U.S. alone. In Canada, we continue to be the leader in the contract furniture business, a tribute to our extensive dealership network and long-standing customer relationships. Canadian sales, at \$219 million, an increase of 7% from 2005, were the highest in Teknion's history.

Internationally, our presence remains strong, and sales in 2006 showed excellent strength, increasing by 8%. Last year, we officially opened a showroom in Bangalore, India, and we are pleased to report that the performance of this new showroom has exceeded our expectations. We will continue to look selectively for opportunities where we can leverage our product and service strengths.

Sustainability remains a major focus for Teknion. We were the first office furniture manufacturer to receive Greenguard certification for indoor air quality for all major product lines – and we were also the first in our industry to receive ISO 14001 certification for our manufacturing facilities and administrative offices. We have recently published an updated Environmental Report, which is available on our web site at www.teknion.com.

LOOKING AHEAD

While growth in the office furniture sector appears to be moderating, market activity continues to be strong, and we believe that we can continue to grow our business in 2007.

In October, we opened a substantial new showroom in New York, and during 2006, we also redesigned our showrooms in London, England and at our flagship space in Toronto. In 2007, we plan to open new or significantly redesigned showrooms in San Francisco, Chicago, Dallas, Miami and Ottawa. We expect that these new and redesigned showrooms will have a meaningful impact on sales in their markets.

We will also be launching three important new products at NeoCon this year:

OPTOS a full-height glass wall system that provides a refined design aesthetic and flexible leveling tolerance and supports LEED (Leadership in Energy and Environmental Design) accreditation;

DISTRICT a completely modern open plan system that complements the latest generation of architecture; and

MARKETPLACE a worktable created by internationally renowned industrial designer Carl Gustav Magnusson and Teknion's in-house design team.

The significant improvement in our earnings in 2006 demonstrates the positive impact of our cost reduction, customer service and efficiency initiatives. We intend to build on these initiatives in 2007 and beyond. One such initiative is TekConnect, which is a project designed to streamline Teknion's order receipt, manufacturing scheduling, shipping/logistics and customer-facing processes. While this project will have a negative impact on earnings in 2007, we believe that this investment will have an overall positive impact in 2008 and beyond.

On behalf of our entire management team, we would like to thank our employees for their hard work and commitment, the members of our Board of Directors for their guidance and leadership, and our customers, dealers and shareholders for their continued support.

David Feldberg

DAVID FELDBERG
President and Chief Executive Officer

Saul Feldberg

SAUL FELDBERG
Chairman of the Board

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following management's discussion and analysis of the financial condition and results of operations for Teknion Corporation ("Teknion" or the "Company") for the years ended November 30, 2006 and 2005, should be read in conjunction with the Company's consolidated financial statements and the notes to those statements. In addition, the Company's continuous disclosure filings are available at www.sedar.com.

OVERVIEW

Teknion is an international designer, manufacturer and marketer of office systems and related products such as seating, storage, filing and tables. The Company's primary product offering is office systems, which accounted for a majority of the Company's sales in fiscal 2006. The Company's operations include approximately 2.5 million square feet of vertically integrated manufacturing space, sales and marketing operations, and showrooms located in major markets around the world. The Company's products are sold through authorized dealers.

Beginning in mid-2001 and continuing throughout fiscal 2003, the contract office furniture industry experienced an unprecedented decline in demand. The estimated total annual production of office furniture in the U.S. declined from approximately U.S. $13 billion in 2000 to U.S. $8.4 billion in fiscal 2003. In late fiscal 2003, the rate of decline subsided, and in fiscal 2004 the industry grew to U.S. $8.8 billion. The industry has continued to grow and reached U.S. $10.8 billion in fiscal 2006.

Given the significant change in market conditions since 2001, the Company has successfully improved its cost structure. Manufacturing space has been consolidated, selling, general and administrative costs have been significantly reduced, and the Company's Malaysian and U.K. operations have been restructured. These activities, coupled with the Company's continued focus on improving manufacturing efficiency and reducing input costs, have had a significant positive impact. However, the high prices of commodities, including steel, aluminum, fuel and its derivatives, and further weakening of the U.S. dollar have mitigated, to a considerable extent, the benefit of the Company's initiatives. The value of the U.S. dollar relative to the Canadian dollar has declined from CDN $1.57 at November 30, 2002, to CDN $1.14 at November 30, 2006.

In addition to focusing on its cost structure, Teknion has continued to introduce innovative award-winning office products. The Company considers that this strategy is not only key to growth but will result in a more sustainable revenue base during changing economic conditions.

RESULTS OF OPERATIONS

Annual

(000 except per share amounts) Years ended November 30	2006	2005	2004
Sales	**$ 631,254**	$ 606,183	$ 497,345
Gross margin	**$ 175,111**	$ 165,894	$ 140,637
Gross margin (% of sales)	**27.7%**	27.4%	28.3%
Earnings (loss) before income taxes	**$ 3,472**	$ 494	$ (18,301)
Net earnings (loss)	**$ 3,501**	$ (20,654)	$ (17,810)
Earnings (loss) per share before loss on asset held for sale[1]	**$ 0.15**	$ (0.32)	$ (0.28)
Earnings (loss) per share (basic & diluted)	**$ 0.05**	$ (0.32)	$ (0.28)
Total assets	**$ 398,050**	$ 394,847	$ 386,053
Long-term debt	**$ 15,579**	$ 16,087	$ 18,424
Multiple voting shares	**39,920**	39,920	39,920
Subordinate voting shares	**24,196**	24,196	24,181

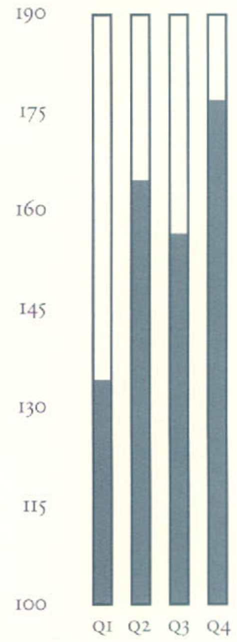
Quarterly Results

(000 except per share amounts) Fiscal 2006	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
Sales	**$ 134,033**	**$ 164,365**	**$ 156,285**	**$ 176,571**	**$ 631,254**
Gross margin	**$ 31,983**	**$ 48,685**	**$ 43,991**	**$ 50,452**	**$ 175,111**
Gross margin (% of sales)	**23.9%**	**29.6%**	**28.1%**	**28.6%**	**27.7%**
Earnings (loss) before income taxes	**$ (7,471)**	**$ 5,753**	**$ 3,374**	**$ 1,816**	**$ 3,472**
Net earnings (loss)	**$ (7,532)**	**$ 6,027**	**$ 3,272**	**$ 1,734**	**$ 3,501**
Earnings (loss) per share before loss on assets held for sale[1]	**$ (0.12)**	**$ 0.10**	**$ 0.05**	**$ 0.12**	**$ 0.15**
Earnings (loss) per share (basic and diluted)	**$ (0.12)**	**$ 0.10**	**$ 0.05**	**$ 0.02**	**$ 0.05**

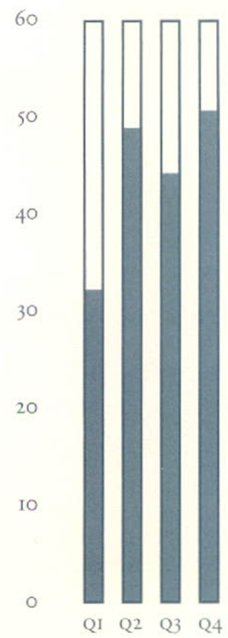
(000 except per share amounts) Fiscal 2005	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
Sales	$ 135,859	$ 151,584	$ 145,605	$ 173,135	$ 606,183
Gross margin	$ 33,645	$ 42,817	$ 37,778	$ 51,654	$ 165,894
Gross margin (% of sales)	24.8%	28.2%	25.9%	29.8%	27.4%
Earnings (loss) before income taxes	$ (6,095)	$ 448	$ (3,022)	$ 9,163	$ 494
Net earnings (loss)	$ (6,323)	$ 234	$ (3,246)	$ (11,319)	$ (20,654)
Loss per share before loss on asset held for sale[1]	$ (0.10)	$ (0.00)	$ (0.05)	$ (0.17)	$ (0.32)
Loss per share (basic and diluted)	$ (0.10)	$ (0.00)	$ (0.05)	$ (0.17)	$ (0.32)

[1] The term "EPS before loss on asset held for sale" is a non-GAAP financial measure and does not necessarily have a standardized meaning among issuers. EPS before loss on asset held for sale is defined as EPS diluted, before the impact on net earnings from the loss on asset held for sale. The Company believes that this adjustment to EPS diluted is useful because it removes a non-cash accounting loss, therefore providing a better measure of the Company's operating performance.

2006
QUARTERLY SALES
(in millions of dollars)



2006
QUARTERLY GROSS MARGIN
(in millions of dollars)



The fluctuation in quarterly earnings before income taxes is largely a result of changes in sales volume and product mix. The project nature of the Company's business can result in significant fluctuations in order levels from period to period, and the first quarter of the fiscal year is historically weaker than subsequent quarters. In 2005 and 2006, the first quarter of the fiscal year experienced the lowest sales volume of the year, while the fourth quarter experienced the highest sales volume. In addition, the significant and unexpected spike in sales in the fourth quarter of fiscal 2005 contributed to the extension of lead times, resulting in a decline in sales in the first quarter of 2006. Lead times returned to normal levels early in the fiscal year and order entry and sales volume improved significantly after the first quarter. The Company was profitable in all but the first quarter of fiscal 2006 as the first-quarter sales level was below the Company's break-even sales level. In addition, in the fourth quarter of fiscal 2006, the Company recorded a loss on asset held for sale of $5.8 million. This loss is a non-cash accounting loss relating to the sale of the Company's U.S. headquarters building subsequent to year-end. This transaction is outlined in more detail under the heading *Loss on Asset Held for Sale.*

In 2005, in addition to the impact of sales volume and product mix, a number of other factors affected the quarterly results. Specifically, the Company incurred costs to exit two facilities and combine these operations into existing premises. Furthermore, in order to improve manufacturing capacity, a product line was moved from one facility to another. In total, approximately $3.3 million of expenses relating to facility exit and moving costs were incurred during the year. By quarter these expenses were recorded as follows: first quarter $1.0 million, second quarter $1.4 million, third quarter $250 thousand and fourth quarter $630 thousand. In the fourth quarter of 2005, another factor that affected the operating results was favorable realty tax assessments relating to certain facilities, increasing earnings before income taxes by $2.1 million and gross margin by 1% of sales. In addition, in the fourth quarter of fiscal 2005, an adjustment to the Company's valuation allowance for future tax assets, totaling $20.3 million, was recorded. This adjustment is discussed below under the headings *Income Taxes* and *Critical Accounting Estimates.*

GEOGRAPHIC SALES
(as percentages of total sales)

Sales

Sales by Geographic Region

Teknion's sales represented by geographic region are set forth below.

(000) Years ended November 30	**2006**	**%**	2005	%	2004	%
Canada	**$ 219,094**	**34.7**	$ 204,731	33.8	$ 184,751	37.1
United States	**347,525**	**55.1**	341,667	56.3	272,438	54.8
International	**64,635**	**10.2**	59,785	9.9	40,156	8.1
Total	**$ 631,254**	**100.0**	$ 606,183	100.0	$ 497,345	100.0

Sales for the year ended November 30, 2006, were $631.3 million, an increase of 4.1% compared to the prior year. Reported sales were negatively impacted by the decline in value of the U.S. dollar relative to the Canadian dollar and would have increased by approximately 8% in fiscal 2006 if the relative value of the currencies had remained the same as the prior year.

Sales in fiscal 2005 were $606.2 million, an increase of 21.9% compared to the prior year. Sales growth would have been 28% had the Canadian/U.S. dollar exchange rate remained the same as the prior year.

Canadian sales reached the highest level in the Company's history.

Canada

Canadian sales grew 7.0% to $219.1 million in fiscal 2006, reaching the highest level in the Company's history. Sales increased by 10.8% in fiscal 2005 over 2004. The strong growth in 2006 and 2005 reflects both the strength of the Canadian economy and the Company's position as market leader.

On a quarterly basis Canadian sales were as follows: first quarter $50.9 million, second quarter $68.8 million, third quarter $51.2 million and fourth quarter $48.2 million. The second quarter is typically the strongest quarter in the year for the Canadian market and this trend was repeated in 2006. Fourth-quarter sales were lower than preceding quarters of the fiscal year. Given the size and nature of project business in the contract furniture segment, quarterly revenue fluctuations are not uncommon.

United States

The following table reflects U.S. sales in U.S. dollars:

(000) Years ended November 30	**2006**	2005	2004
U.S. sales	**U.S. $298,862**	U.S. $273,178	U.S. $207,448

U.S. sales in 2006 increased 1.7% in Canadian dollars to $347.5 million and 9.4% in U.S. dollars. The Business and Institutional Furniture Manufacturers Association (BIFMA) reported industry growth of 8.3% and therefore Teknion's sales increase exceeded the industry growth rate. In fiscal 2005, in source currency sales increased 31.7%, exceeding the industry growth rate of 12.4%. Growth in the U.S. reflects strong commercial project activity in a wide variety of industries. In addition, sectors into which the Company has expanded its presence over the past three years, such as government, health and education, and day-to-day dealer business including "quick-ship," have also been important contributors to growth.

On a quarterly basis U.S. sales in Canadian dollars were as follows: first quarter $67.7 million, second quarter $81.2 million, third quarter $89.3 million and fourth quarter $109.3 million. Teknion's growth rate exceeded the industry growth rate in every quarter except the first and exceeded the industry growth rate for the year. Growth in the first quarter was negatively affected by the extension of lead times as explained above under the heading *Quarterly Results*. Fourth-quarter sales showed continued strength, increasing 18.5% in source currency over the prior year and approaching three times the industry growth rate reported by BIFMA of 6.5%.

Teknion has shown significant growth in its international markets over the past two years.

International

International sales increased 8.1% to $64.6 million. Teknion has shown significant growth in its international markets over the past two years as 2005 sales were 48.9% higher than 2004. International sales benefited from a number of large projects in the strong economies of the Middle East, Latin America and India. In addition to projects for foreign-based companies, many of Teknion's North American customers have been expanding their overseas operations and look to Teknion to supply them.

On a quarterly basis international sales were as follows: first quarter $15.4 million, second quarter $14.4 million, third quarter $15.8 million and fourth quarter $19.0 million. Teknion's international sales are significantly influenced quarter to quarter by the timing of large projects.

Gross Margin

Gross margin as a percentage of sales in 2006 was 27.7% as compared to 27.4% in 2005. This improvement in gross margin occurred despite further weakening of the U.S. dollar relative to the Canadian dollar that negatively affected gross margin by 2.6% of sales. The Company's cost reduction and price realization initiatives, combined with improved capacity utilization, more than offset the negative impact of further weakening of the U.S. dollar relative to the Canadian dollar.

Gross margin as a percentage of sales in the current fiscal year was 23.9% in the first quarter, 29.6% in the second quarter, 28.1% in the third quarter and 28.6% in the fourth quarter. The fluctuation of gross margin between the quarters reflects the impact of capacity utilization and product mix.

Selling, General and Administrative Expenses

Selling, general and administrative expenses ("SG&A") were $142.1 million, 22.5% of sales, compared to $140.4 million, 23.2% of sales in 2005 (26.8% in 2004). As a percentage of sales, SG&A is at its lowest level in six years, reflecting both the increase in sales and the Company's cost reduction initiatives. SG&A in 2005 included facility exit and moving costs totaling $2.7 million.

In 2007, SG&A will increase to support the implementation of a new order management system. Anticipated third-party costs are expected to total approximately $9.0 million. The implementation will extend into 2008, and savings associated with the new system will not be realized until 2008. This system is designed to streamline Teknion's order receipt, manufacturing scheduling, shipping/logistics and customer-facing processes.

Depreciation and Amortization Expense ("Depreciation")

Depreciation was $18.9 million in 2006 compared to $20.1 million in 2005 and $22.4 million in 2004. Depreciation expense has been declining because of the lower level of capital spending from 2003 to 2005 inclusive. For 2007, depreciation is expected to be at the 2006 level.

Interest Expense

Interest expense increased in fiscal 2006 to $4.5 million from $3.5 million in 2005. Both interest rates and the Company's total average net borrowings were higher in fiscal 2006 compared to 2005.

Loss on Asset Held for Sale

Subsequent to year-end, Teknion sold its U.S. headquarters building for net proceeds of approximately U.S. $18.0 million, U.S. $500 thousand above the U.S. dollar net book value of the property. Net proceeds of approximately U.S. $5.9 million (after the discharge of the mortgage on the property of U.S. $12.1 million) were used by the Company to reduce its operating lines. Teknion LLC, the Company's U.S. subsidiary, is an integrated foreign operation and accordingly, fixed assets are recorded on the Company's books at historical exchange rates. The prevailing exchange rate at date of acquisition of the property was U.S. $1.00 = CDN $1.54. Accordingly, although this transaction generated cash of U.S. $5.9 million, it results in an accounting (non-cash) loss of CDN $5.8 million.

Loss on Disposal of Property, Plant and Equipment

The loss on disposal of property, plant and equipment totaled $345 thousand as compared to $1.4 million in fiscal 2005. During 2005, the Company exited two facilities and as a result of these moves incurred a loss on disposal of $600 thousand.

Earnings before Income Taxes

Teknion reported earnings before income taxes of $3.5 million in fiscal 2006 as compared to $494 thousand in 2005 and a loss before income taxes of $18.3 million in 2004. In 2006, earnings before income taxes included a loss on asset held for sale of $5.8 million. This accounting, non-cash loss is described in more detail above under the heading *Loss on Asset Held for Sale.* The Company's operating results have shown significant improvement despite the negative impact of the weakening of the U.S. dollar relative to the Canadian dollar. This improvement has been achieved by a focused effort to reduce costs and improve efficiency, the success of price realization initiatives, and by the effective execution of marketing strategies. In 2007, Teknion will continue to focus on cost reduction and efficiency while executing its strategies for continued growth.

Income Taxes

The Company's 2006 income tax recovery of $29 thousand reflects the benefit of applying tax losses from prior years against the current year's earnings. In 2004 and 2005, Teknion established an income tax valuation allowance whereby it wrote off previously recorded net future tax assets. This matter is discussed below in further detail under the heading *Critical Accounting Estimates.*

The Company reported earnings before income taxes of $3.5 million in fiscal 2006 as compared to $494 thousand in 2005.

Fourth-quarter net earnings were $1.7 million and sales were $176.6 million.

Impact of Foreign Exchange Fluctuations on the Company's Operating Results
As noted under the heading *Sales by Geographic Region*, more than half of Teknion's sales are U.S.-based and are billed and collected in U.S. dollars. In addition, approximately half of international sales are transacted in U.S. dollars. Accordingly, the Company's operating results are affected by exchange rate fluctuations between the Canadian dollar and the U.S. dollar. The exchange rate effect on earnings before income taxes relates to the level of U.S. dollars received in excess of U.S. dollar expenditures (the "exposure"). These U.S. dollar expenditures create a "natural" hedge, which, at current sales levels, is approaching half of the Company's U.S. dollar sales. This natural hedge derives principally from the purchase of products and material in U.S. dollars and from the cost of running the Company's U.S. operations. Teknion estimates that for 2006, U.S. dollars received in excess of U.S. dollar expenditures totaled $140 million (2005 – $125 million, 2004 – $100 million). To mitigate the impact of short-term fluctuations of the exchange rate, the Company enters into foreign exchange forward contracts. The details of these contracts are included in Note 13 to the consolidated financial statements. These contracts, together with the sale of U.S. dollars in the spot market, resulted in an average effective exchange rate on the exposure for the fiscal year of approximately U.S. $1.00 = CDN $1.19 (2005 – CDN $1.28, 2004 – CDN $1.35). For 2006, the decline in the average effective exchange rate, as compared to 2005, reduced earnings before income taxes by $13 million. In 2005, the decline reduced earnings before income taxes by $9 million compared to 2004. As the impact is cumulative, 2006 earnings before income taxes are lower by $22 million as compared to what they would be if the average effective rate in 2006 was the same as the average effective rate in 2004.

In addition to the impact of fluctuations in the exchange rate on the Company's day-to-day operations, in the fourth quarter of the 2006 fiscal year, the Company recorded a non-cash accounting loss of $5.8 million, relating to the sale of its U.S. headquarters building. This loss relates to the weakening of the U.S. dollar between the date this building was acquired and its sale subsequent to year-end. This transaction is described in more detail under the heading *Loss on Asset Held for Sale.*

For 2007, the Company has entered into foreign exchange forward contracts as detailed in Note 13 to the consolidated financial statements. The average rate of these forward contracts is U.S. $1.00 = CDN $1.13 and total U.S. $61.0 million at November 30, 2006. Subsequent to year-end, the Company continued to enter into foreign exchange forward contracts for fiscal 2007.

FOURTH QUARTER 2006
The Company reported fourth-quarter net earnings of $1.7 million and sales of $176.6 million as compared to a net loss of $11.3 million and sales of $173.1 million in the fourth quarter of the prior year. Despite continued weakening of the U.S. dollar relative to the Canadian dollar, the Company increased revenue and improved its overall operating performance.

Geographic Segmentation
(000)

Three months ended November 30		2006		2005
Sales:				
Canada	$	**48,243**	$	56,917
United States		**109,284**		95,788
International		**19,044**		20,430
Total	$	**176,571**	$	173,135

Sales for the fourth quarter ended November 30, 2006, increased by 2.0% to $176.6 million compared to $173.1 million in the fourth quarter of the prior year.

On a segmented basis, compared to the prior year period, U.S. sales in the fourth quarter increased by 14.1% to $109.3 million in Canadian dollars and by 18.5% in source currency. BIFMA reported industry growth of 6.5% for the quarter. Growth in the U.S. reflects strong commercial project activity from a wide variety of industries. In addition, several large government projects were an important contributor in the quarter. U.S. sales have shown steady gains through the fiscal year as second-quarter sales exceeded the first quarter by 19.9%, third-quarter sales exceeded the second quarter by 9.9% and fourth-quarter sales exceeded the third quarter by 22.4%.

Canadian sales declined by 15.2% to $48.2 million for the quarter. Given the size and nature of the project business in the contract furniture segment, quarterly revenue fluctuations are not uncommon. Canadian sales increased 7.0% in the fiscal year and were the highest in the Company's history. The increase for the fiscal year reflects both the strength of the Canadian economy and the Company's position as market leader.

International sales declined by 6.8% to $19.0 million for the quarter. Consistent with the Canadian market, the project nature of the business can lead to quarterly fluctuations. The fourth quarter of the prior fiscal year included a particularly large project in the Middle East. International sales increased by 8.1% for the year, and despite the fourth quarter in the current year being lower than the fourth quarter of 2005, sales were significantly higher than in the previous three quarters. Strong growth was achieved in Latin America, the Middle East and India.

Gross margin as a percentage of sales was 28.6% for the quarter compared to 29.8% in the fourth quarter of the prior year. The fourth quarter of the prior year included favorable realty tax assessments relating to certain facilities, increasing earnings by $2.1 million and gross margin by 1.0% of sales for the quarter. In addition, further weakening of the U.S. dollar reduced gross margin by 2.9% of sales as compared to the prior year quarter. The Company's cost reduction and price realization initiatives resulted in significant improvement in the Company's operating metrics.

SG&A was $36.7 million for the quarter, 20.8% of sales, as compared to $36.2 million, 20.9% of sales in the prior year quarter. SG&A in the prior year quarter included facility moving and exit costs totaling $630 thousand.

In the quarter, the Company recorded a loss on asset held for sale of $5.8 million. This loss is a non-cash accounting loss relating to the sale of the Company's U.S. headquarters building subsequent to year-end. This loss relates to the weakening of the U.S. dollar between the date this building was acquired and its sale subsequent to year-end. This transaction is outlined in more detail under the heading *Loss on Asset Held for Sale.*

The Company's income tax expense for the quarter of $82 thousand reflects the benefit of applying tax losses from prior years to current period earnings.

LIQUIDITY AND CAPITAL RESOURCES

(000)

Years ended November 30	**2006**	2005	2004
Cash from operations before non-cash working capital changes	**$ 28,864**	$ 21,417	$ 1,546
Cash from (used in) operations after non-cash working capital changes	**$ 15,469**	$ (1,243)	$ 1,508
Non-cash working capital[1]	**$ 95,565**	$ 82,561	$ 60,212
Capital expenditures	**$ 24,139**	$ 16,504	$ 7,329
Net debt to equity[1]	**0.35:1**	0.33:1	0.23:1

[1] The terms non-cash working capital and net debt are non-GAAP financial measures and do not necessarily have standardized meanings amongst issuers. They are defined as follows:

Non-cash working capital is defined as current assets less current liabilities excluding cash, future income taxes, assets held for sale, operating loans, the current portion of long-term debt and liability held for sale. The Company believes that non-cash working capital is a useful figure because it measures the effectiveness of the Company's accounts receivable collection, inventory management and supplier payment practices.

Net debt is defined as operating loans plus long-term debt and capital lease obligations (including current portion) less cash. The Company believes that net debt is a useful figure because it measures the total borrowings of the Company without distinction of the term of the debt.

Cash flow from operations before non-cash working capital changes increased 34.8% from $21.4 million in 2005 to $28.9 million for 2006. As shown in the table above, 2005 also reflected a significant improvement over 2004. The increase in the periods reflects the improvement in Teknion's operating results over the comparative fiscal years.

Non-cash working capital increased to $95.6 million from $82.6 million in 2005 (2004 – $60.2 million). The year-over-year increases reflect additional working capital required to support the higher sales levels and result in similar working capital management statistics. Days outstanding for accounts receivable were 65 at year-end in both 2006 and 2005 (62 days at November 30, 2004). Further, the number of days of production inventory was 46 at November 30, 2006, compared to 43 days at November 30, 2005 (47 days at November 30, 2004).

Capital expenditures in 2006 totaled $24.1 million compared to $16.5 million in 2005 (2004 – $7.3 million). Capital expenditures in 2006 included tooling for new products, equipment to increase capacity and efficiency, safety upgrades and leasehold improvements relating to facility and showroom moves in the year. For 2007, capital expenditures are expected to approximate $35 million; however, proceeds on the disposition of Teknion's U.S. headquarters in 2007 of approximately $21 million, should result in net expenditures of approximately $14 million. The increase in capital expenditures in 2007 compared to 2006 relates to new product launches, leasehold improvements associated with relocation of four U.S. showrooms, and the move to leased premises for the Company's U.S. headquarters.

At November 30, 2006, the balance sheet is strong with a net debt-to-equity ratio of 0.35:1. Total net debt was $78.5 million compared to $70.4 million at November 30, 2005. At November 30, 2006, the Company utilized $57.6 million of its $111.9 million operating lines of credit, with the majority of its credit lines bearing interest at the banks' prime rate less 0.25% per annum.

In order to better balance its mix of short- and long-term financing, during the year Teknion entered into capital lease arrangements totaling $15.8 million. The terms of these arrangements are five to seven years with fixed rates ranging from 5.86% to 5.96%.

Subsequent to year-end, Teknion sold its U.S. headquarters for net proceeds of U.S. $18.0 million and repaid the mortgage on the property of U.S. $12.1 million.

The following table summarizes the Company's contractual obligations:

(000)	Total	Less than 1 year	1–3 years	4–5 years	After 5 years
Long-term debt and capital lease obligations	$ 31,262	$ 2,450	$ 5,812	$ 7,153	$ 15,847
Operating leases	57,706	14,530	20,534	10,112	12,530
Total contractual obligations	$ 88,968	$ 16,980	$ 26,346	$ 17,265	$ 28,377

RELATED PARTY TRANSACTIONS

Transactions with related parties were as follows:

(000)	**2006**	2005	2004
Sales	**$ 9,761**	$ 11,006	$ 9,238
Purchases	**44,416**	57,215	45,245
Lease payments	**8,469**	6,499	8,469
Other purchases	**147**	983	272

Substantially all related party transactions occurred with an indirect shareholder, Global Upholstery Co. Limited, and entities related to, controlled or significantly influenced by it (collectively "Global").

Transactions between the Company and Global occur at prices that are either in accordance with written agreements between the Company and Global or in accordance with regular market prices. Management believes that the prices and terms at which all transactions are conducted with Global are competitive with prices and terms for comparable arm's-length transactions. The Corporate Governance Committee of the Board of Directors is responsible for and reviews, monitors and establishes all policies for related party transactions.

Purchases from Global

Global manufactures the Boulevard and Descor lines, both of which are targeted to the mid-priced segment of the contract furniture market. Boulevard and Descor are sold in the U.S. by Teknion pursuant to an exclusive distribution agreement with Global.

The Global Group Israel Limited Partnership ("Global Israel") is a supplier of certain products to Teknion for the European market, and for its own account is the exclusive manufacturer and distributor of Teknion products in Israel, the Czech Republic, the Slovak Republic, Bulgaria, Turkey, Cyprus and Egypt (collectively the "Territory"). Global Israel has agreed not to sell or permit a sale of Teknion products outside the Territory other than to Teknion.

Global maintains a government-certified testing laboratory for purposes of testing newly developed and customized products, and components used in the manufacturing of products. The Company uses the facility and pays Global for use of this testing facility.

Sales to Global

Global currently purchases components and products manufactured by the Company.

Sales to Related Party Dealers

One of the Company's subsidiaries has a third-party minority shareholder. This shareholder has a direct or indirect interest in office furniture dealers that sell and distribute the Company's products. Management believes that the prices at which product is purchased by this related party from the Company are competitive.

Leases from Global

The Company leases properties from Global. These properties are used for general manufacturing and office purposes.

Revolving Loan Facility

During 2006, the Company entered into a $6.8 million revolving loan facility with Global. The facility is secured by first charges on certain of the Company's properties, and bears interest at the banks' prime rate plus 0.5%. There were no borrowings against this facility at year-end.

CRITICAL ACCOUNTING ESTIMATES

The preparation of the Company's financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amount of revenue and expenses during the reporting period.

The most significant accounting estimate included in the consolidated financial statements is goodwill valued at $30.9 million and unchanged from 2005 and 2004, and the valuation of net future tax assets.

The Company assesses the realization of these future tax assets to determine whether an income tax valuation allowance is required. The main factors that are considered include:

- cumulative losses in recent years;
- the carryforward period associated with the future tax assets;
- net earnings/loss by tax jurisdiction; and
- future earnings potential determined through the use of internal forecasts and available external market research.

Based on the above-noted factors, during fiscal 2005 and 2004, valuation allowances of $20.3 million and $8.1 million were recorded, respectively. Accordingly, the Company reduced its net future tax asset on its consolidated balance sheet to nil by the end of fiscal 2005 and the income tax expense for fiscal 2005 included an additional expense of $20.3 million relating to the valuation allowance. In 2006, the Company recorded an income tax recovery of $29 thousand, which reflects the benefit of applying tax losses from prior years against current year's earnings. As shown in Note 3 to the consolidated financial statements, the Company has tax losses totaling $126.4 million, which can be applied against future years' earnings.

NEW CICA REPORTING REQUIREMENTS

The CICA issued Section 3855, Financial Instruments – Recognition and Measurement, Section 3865, Hedges and Section 1530, Comprehensive Income. These standards are effective for the Company on December 1, 2006.

The new financial instruments standards include a broad definition of derivatives, which require that all derivatives and embedded derivatives be measured at fair value and changes in fair value be recorded in earnings. The new financial instruments standards require that all financial assets and liabilities be classified into categories based on their attributes. The categories determined for each of the financial assets and liabilities will determine their measurement, either at fair value or amortized cost, and how gains or losses are recognized. Based on the Company's preliminary review, Teknion expects to classify its financial assets and liabilities in categories that will result in measurements that are based on amortized cost, which we do not expect to be materially different than carrying values of these items.

The standards also establish new criteria for determining when hedge accounting can be applied and require immediate expensing of hedge ineffectiveness. Teknion has updated its hedge documentation relating to foreign exchange forward contracts to comply with the new requirements.

The new comprehensive income standard provides guidance for the reporting and presentation of other comprehensive income. Comprehensive income represents the change in equity of an enterprise during a period from transactions and other events. The Company expects that its foreign exchange forward contracts will be recognized as an adjustment through other comprehensive income in 2007.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the CEO and CFO, on a timely basis, so that appropriate decisions can be made regarding public disclosure. An evaluation of the effectiveness of the design and operation of the disclosure controls and procedures was conducted as of November 30, 2006. Based on this evaluation, the CEO and CFO have concluded that the disclosure controls and procedures, as defined in Multilateral Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings, are effective to ensure that information required to be disclosed in reports that we file under Canadian securities legislation is reported within the time periods required.

Internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with Canadian generally accepted accounting principles. Management is responsible for establishing and maintaining adequate internal control. Management, including the CEO and CFO, has evaluated the design of internal control over financial reporting and, based on this evaluation, has concluded that internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian generally accepted accounting principles as of November 30, 2006. In addition, there were no changes in internal control over financial reporting that have occurred in the most recent interim period that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

RISK FACTORS

The risks and uncertainties outlined below are not the only ones the Company faces. Additional risks and uncertainties not presently known to the Company or that are currently considered less significant may also adversely affect the Company's business, operating results and financial position.

Foreign Exchange Risk

Over half of the Company's sales are transacted, and revenues thereon are received, in U.S. dollars; however, the majority of the Company's manufacturing operations are located in Canada and accordingly most of the Company's costs are incurred in Canadian dollars. As a result, the Company's profit margins and competitive position may be affected by exchange rate fluctuations between the Canadian dollar and the U.S. dollar.

While the Company enters into foreign currency forward exchange contracts in order to manage its short-term exposure to the fluctuation of the currencies, the terms of these contracts are usually no more than a year, and are not intended to hedge 100% of the Company's estimated U.S. dollar exposure. Note 13 to the consolidated financial statements sets out the details of the foreign exchange contracts in place at November 30, 2006.

Changes in the Cost of Raw Materials

The Company's cost of sales is influenced by the cost of raw materials and certain commodities such as steel, aluminum and petroleum-based products used directly or indirectly in the manufacture and sale of its products. When the cost of raw materials and commodities rise, there is no assurance that the Company will be able to pass these cost increases on to its customers. Accordingly, gross margin could decline as such costs increase.

General Economic and Business Conditions

The Company's sales and therefore its overall operating results and financial position are significantly affected by the level of spending for office furniture, which, in turn, is a function of the general economic environment. As the economy slows, "white collar employment" and commercial construction typically decline, and office vacancy rates increase. In addition, during such periods, increased amounts of "nearly new" used office furniture may be available for purchase in the market. These factors would likely result in a decline in demand for new office furniture and increase price competition in the market.

Proprietary Products and Marketability of Products

Amongst other factors, office furniture companies compete on the basis of the design of their products. In order for the Company to increase sales and to prevent sales from declining it must continue to offer products desired by the market. Rapid changes in technology, customer requirements, product introductions by competitors, emerging standards and other factors could negatively affect the market's acceptance of the Company's products. In addition, the Company's financial results could be negatively impacted if the Company's intellectual property rights to its designs were challenged and it was prevented from selling a product, or alternatively, if a competitor introduced a product with similar design advantages.

Key Personnel

The Company relies on certain key executives to fulfill its business strategy. The loss of a key individual and the inability to replace that person within a reasonable period of time could be detrimental to the Company's operating results.

Commitments from Significant Dealers or Distributors

The Company relies on many independent dealers to assist in marketing and distributing products to the market. Although the loss of an individual dealer would not likely be detrimental to the Company's operating results, the loss of several dealers within a short period of time could result in a decline in sales and operating profit.

Financing

The Company relies on a number of lenders to finance the business. In the event that a significant lender determined that it no longer wished to provide financing and the Company was unable to replace the lender or provide an alternate source of funds within a reasonable period of time, the Company would have difficulty in meeting commitments to suppliers, employees and other stakeholders. In addition, under such circumstances, it is unlikely that the Company could grow or expand the business.

Other Risks and Uncertainties

In addition to the risks and uncertainties outlined above, factors that could cause actual results to differ from expectations include, but are not limited to: the Company's dependence on its suppliers; potential liabilities arising from product defects; and environmental matters.

OUTLOOK

Management continues to believe that, over the long term, the worldwide business environment will increasingly require that organizations utilize costly office space more effectively and improve the working environment to increase employee productivity. The Company also believes that these factors, combined with increased commercial construction and capital spending, as well as the growing use of technology and the increasing awareness of workplace health and safety, will allow growth in the contract office furniture industry to exceed growth in GDP.

The Company believes that the positive trend of growing customer demand reflected in the current BIFMA statistics bodes well for the office furniture industry. Most industry observers believe that the industry will continue to grow through 2007.

The Company remains confident that its focused growth strategies, combined with its comprehensive product lines, innovative designs and extensive dealer network, will enable the Company to capitalize on renewed demand in its markets.

The Company's strategies for future growth and improvement to its operating results are to continue to: develop its sales and marketing initiatives to expand its presence and market share, focusing on market segments where the Company previously did not have a strong presence; leverage the strength and economies of scale resulting from the vertical integration and recent modernization of its manufacturing facilities and processes; maintain its focus on design and innovation to ensure it can respond quickly with new and enhanced products to meet the needs of its customers; continue its focus on cost improvement and efficiency; and make prudent acquisitions that meet the Company's long-term strategic objectives.

As a result of these strategies and an anticipated improvement in the market for the Company's products, and despite the deterioration of the U.S./Canadian dollar exchange rate, management expects continued improvement in fiscal 2007 compared to fiscal 2006. However, the anticipated one-time expenses related to the implementation of a new order management system during fiscal 2007 and described under the heading *Selling, General and Administrative Expenses*, will partially offset the positive financial impact of the operating improvements.

FORWARD-LOOKING STATEMENTS

This management's discussion and analysis of the financial condition and results of operations contains forward-looking statements with respect to the Company's future prospects. These statements involve certain risks and uncertainties, as outlined above under the heading *Risk Factors*, that could cause the Company's financial results to differ materially from stated expectations. The Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

AUDITORS' REPORT TO SHAREHOLDERS

We have audited the consolidated balance sheets of Teknion Corporation as at November 30, 2006 and 2005 and the consolidated statements of earnings, retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at November 30, 2006 and 2005 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

CHARTERED ACCOUNTANTS
Toronto, Canada
February 12, 2007

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying financial statements and information included in this Annual Report have been prepared by the management of Teknion Corporation in accordance with Canadian generally accepted accounting principles, and include amounts based on management's informed judgments and estimates. Management is responsible for the integrity and objectivity of these financial statements. To fulfill this responsibility, Teknion maintains an appropriate system of internal control, policies and procedures to reasonably ensure that its reporting practices and accounting and administrative procedures provide reliable and accurate financial information, and that assets are adequately safeguarded. The financial information presented elsewhere in this Annual Report is consistent with that in the financial statements in all material respects.

KPMG LLP, the auditors appointed by the shareholders of Teknion, have examined the financial statements in accordance with Canadian generally accepted auditing standards to enable them to express to shareholders their opinion on the financial statements. Their report as the Company's auditors is set forth herein.

The financial statements have been further reviewed and approved by the Board of Directors and its Audit Committee. This Committee meets regularly with management and the auditors, who have full and free access to the Audit Committee.

David Feldberg

DAVID FELDBERG
President and Chief Executive Officer
February 12, 2007

Scott Bond

SCOTT BOND
Chief Financial Officer and Secretary
February 12, 2007

CONSOLIDATED BALANCE SHEETS

November 30 (in thousands of dollars)	2006	2005
ASSETS		
Current assets:		
Cash	$ 5,862	$ 10,435
Accounts receivable (NOTE 2(A))	128,197	125,505
Inventory	57,975	52,215
Prepaid expenses and other deposits	4,620	4,189
Income taxes receivable	427	–
Future income taxes (NOTE 3)	1,027	1,203
Asset held for sale (NOTE 4)	21,079	–
	219,187	193,547
Property, plant and equipment (NOTE 5)	136,900	170,426
Prepaid rent (NOTE 6)	11,089	–
Goodwill	30,874	30,874
	$ 398,050	$ 394,847
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Operating loans (NOTE 7)	$ 53,091	$ 63,056
Accounts payable and accrued liabilities (NOTE 2(A))	94,830	98,377
Income taxes payable	–	920
Due to affiliated companies (NOTE 2(B))	824	51
Current portion of long-term debt and capital lease obligations (NOTES 8 AND 9)	1,830	1,711
Liability held for sale (NOTE 4)	13,853	–
	164,428	164,115
Long-term debt and capital lease obligations (NOTES 8 AND 9)	15,579	16,087
Future income taxes (NOTE 3)	1,027	1,203
Shareholders' equity:		
Share capital (NOTE 10)	107,005	107,005
Retained earnings	119,987	116,486
Contributed surplus (NOTE 10(C))	376	94
Currency translation adjustment	(10,352)	(10,143)
	217,016	213,442
Commitments (NOTE 12)		
Subsequent event (NOTE 4)		
	$ 398,050	$ 394,847

See accompanying notes to consolidated financial statements.

David Feldberg David Sanchez

ON BEHALF OF THE BOARD: **DAVID FELDBERG** Director **DAVID SANCHEZ** Director

CONSOLIDATED STATEMENTS OF EARNINGS

Years ended November 30 (in thousands of dollars, except per share amounts)	2006	2005
Sales	$ 631,254	$ 606,183
Cost of sales	456,143	440,289
Gross margin	175,111	165,894
Expenses:		
Selling, general and administrative (NOTE 1(G))	142,073	140,396
Depreciation and amortization	18,941	20,087
	161,014	160,483
Earnings (loss) from operations	14,097	5,411
Interest expense, net (NOTES 8 AND 9)	4,453	3,512
Loss on asset held for sale (NOTE 4)	5,827	–
Loss on disposal of property, plant and equipment	345	1,405
Earnings before income taxes	3,472	494
Income taxes (recovery) (NOTE 3):		
Current	(29)	880
Future	–	20,268
	(29)	21,148
Net earnings (loss)	$ 3,501	$ (20,654)
Earnings (loss) per share (NOTE 11):		
Basic and diluted	$ 0.05	$ (0.32)

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

Years ended November 30 (in thousands of dollars)	2006	2005
Retained earnings, beginning of year	$ 116,486	$ 137,140
Net earnings (loss) for the year	3,501	(20,654)
Retained earnings, end of year	$ 119,987	$ 116,486

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended November 30 (in thousands of dollars)	2006	2005
Cash provided by (used in):		
OPERATIONS		
Net earnings (loss)	$ 3,501	$ (20,654)
Items not affecting cash:		
Depreciation and amortization	18,941	20,087
Future income taxes	–	20,268
Loss on asset held for sale (NOTE 4)	5,827	–
Loss on disposal of property, plant and equipment	345	1,405
Foreign exchange loss (gain)	(32)	254
Amortization of stock-based compensation	282	57
	28,864	21,417
Change in non-cash operating working capital	(13,395)	(22,660)
	15,469	(1,243)
FINANCING		
Operating loans	(9,965)	19,149
Repayment of long-term debt and capital lease obligations	(2,018)	(2,474)
Issuance of share capital	–	77
	(11,983)	16,752
INVESTMENTS		
Purchase of property, plant and equipment	(21,673)	(16,504)
Proceeds on disposal of equipment under sale-leaseback	13,381	–
Proceeds on disposal of property, plant and equipment	191	825
	(8,101)	(15,679)
Foreign exchange gain (loss) on cash held in foreign currencies	42	(549)
Decrease in cash	(4,573)	(719)
Cash, beginning of year	10,435	11,154
Cash, end of year	$ 5,862	$ 10,435
Supplemental cash flow information:		
Interest paid	$ 5,085	$ 4,041
Interest received	356	271
Income taxes paid	1,600	2,208
Income taxes recovered	851	1,119
Supplemental disclosure relating to non-cash financing and investing activities:		
Acquisition of property, plant and equipment through capital leases	2,466	–

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Tabular amounts in thousands of dollars, except per share amounts) Years ended November 30, 2006 and 2005

Teknion Corporation is incorporated under the *Business Corporations Act*, and its primary business activity is the design, manufacture and sale of office furniture.

1. SIGNIFICANT ACCOUNTING POLICIES:

(a) Basis of presentation:

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles.

The consolidated financial statements include the accounts of Teknion Corporation and all of its subsidiaries ("Teknion" or the "Company"). All significant intercompany transactions have been eliminated on consolidation.

(b) Revenue recognition:

The Company recognizes revenue when products are shipped and the customer takes ownership and assumes risk of loss, persuasive evidence of an arrangement exists and the sales price is fixed or determinable.

(c) Inventory:

Inventory is valued at the lower of cost and net realizable value. Cost is determined on a first-in, first-out basis.

(d) Property, plant and equipment:

Property, plant and equipment are recorded at cost and depreciated on a declining-balance basis at the following annual rates:

Buildings	5%
Computer hardware	20%
Computer software	20%
Manufacturing equipment	10%
Office equipment	20%
Tools and dies	10%

Showrooms are depreciated on a straight-line basis over four years.

Leasehold improvements are amortized on a straight-line basis over the term of the lease.

Patents and trademarks are amortized on a straight-line basis over 10 years.

(e) Prepaid rent:

Prepaid rent is the difference between the net book value and the ascribed value of the manufacturing equipment financed in a sale-leaseback transaction. The prepaid rent is amortized on the same basis as the leased assets and recorded in depreciation and amortization.

(f) Goodwill and other intangible assets:

Goodwill represents the difference between the purchase price and the related underlying net asset values resulting from business acquisitions. The Company reviews the carrying value of goodwill to an estimate of its fair value annually. Due to the integrated nature of the Company's operations and lack of differing economic characteristics among the Company's subsidiaries, the entire Company was determined to be one single reporting unit. The quoted market price of the Company's stock on the impairment testing date is the basis for determining the fair value of the Company's reporting unit. If the fair value of the Company's one reporting unit exceeds its carrying amount, further evaluation is not necessary. However, if the fair value of the reporting unit is less than its carrying amount, further evaluation is required to compare the implied fair value of the reporting unit's goodwill to its carrying amount to determine whether a write-down of goodwill is required. Intangible assets with determinable lives continue to be amortized over their estimated useful lives and are tested for impairment at least annually or whenever events or changes in circumstances indicate the carrying amount of the asset may not be recoverable by comparing their book values with the undiscounted cash flow expected to be received from their use. The Company determined that no impairment existed in the carrying value of the goodwill in its reporting unit as at November 30, 2006 and 2005.

(g) Translation of foreign currency:

Foreign operations are classified as self-sustaining or integrated.

(i) Self-sustaining foreign operations:

All assets and liabilities are translated into Canadian dollars at exchange rates in effect at year-end. Revenue and expenses are translated at the average rates of exchange for the year. The resulting net gains or losses are recorded as a currency translation adjustment in shareholders' equity. Cash flows are translated at the rate at the time of the cash flows.

(ii) Integrated foreign operations and accounts in foreign currencies:

Integrated foreign operations and accounts in foreign currencies have been translated into Canadian dollars using the temporal method. Under this method, consolidated balance sheet monetary items are translated at the rates of exchange in effect at year-end and non-monetary items are translated at historical exchange rates. Revenue and expenses (other than depreciation and amortization, which are translated at the same rates as the related property, plant and equipment) are translated at the rates in effect on the transaction dates or at the average rates of exchange for the year. The resulting gains or losses are included in the consolidated statements of earnings.

Included in selling, general and administrative expenses are foreign exchange gains of $32,000 (2005 – losses of $254,000).

(h) Income taxes:

The Company uses the asset and liability method of accounting for the tax effect of temporary differences between the carrying amount and the tax basis of the Company's assets and liabilities. Temporary differences arise when the realization of an asset or the settlement of a liability would give rise to either an increase or decrease in the Company's income taxes payable for the year or a later period.

Future income taxes are recorded at the income tax rates which are expected to apply when the future tax liability is settled or the future income tax asset is realized. Future tax assets are recognized to the extent that realization of these assets is more likely than not. Income tax expense consists of the income taxes payable for the year and the change during the year in future income tax assets and liabilities.

(i) Earnings (loss) per share:

Basic earnings (loss) per share are computed by dividing net earnings (loss) by the weighted average shares outstanding during the year. Diluted earnings (loss) per share are computed similarly to basic earnings (loss) per share except that the weighted average shares outstanding are increased to include additional shares from the assumed exercise of stock options, if dilutive. The number of additional shares is calculated by assuming that outstanding stock options were exercised and that the proceeds from such exercises were used to acquire shares of common stock at the average market price during the year.

(j) Stock-based compensation plans:

The Company has a stock-based compensation plan, which is described in Note 10. The Company accounts for all stock-based payments to non-employees, and employee awards that are direct awards of stock granted on or after December 1, 2003, under the fair value based method, and accounts for all stock-based employee awards that call for settlement in cash or other assets, or are stock appreciation rights that call for settlement by the issuance of equity instruments, under that method.

Effective December 1, 2003, the Company elected early adoption, on a prospective basis, of the new recommendations issued by The Canadian Institute of Chartered Accountants ("CICA") related to physically settled stock options. Stock options that were granted before fiscal 2004 have been accounted for as a capital transaction when exercised and no compensation cost has been recognized.

Under the fair value-based method, compensation cost for physically settled stock options and direct awards of stock is measured at fair value at the grant date, while compensation cost for awards that call for settlement in cash or other assets, or are stock appreciation rights that call for settlement by the issuance of equity instruments, is measured at the ultimate settlement amount. Compensation cost is recognized in earnings on a straight-line basis over the relevant vesting period. The counterpart is recognized in contributed surplus. Upon exercise of a stock option, share capital is recorded as the sum of the proceeds received and the related amount of contributed surplus.

(k) Guarantees:

The Company is required to disclose significant information on guarantees it has provided, without regard to whether it will have to make any payments under the guarantees and in addition to the accounting required by CICA Handbook Section 3290, Contingencies. As of the years ended November 30, 2006 and 2005, there were no significant guarantees entered into by the Company that would require any additional financial statement note disclosure.

In certain situations, the Company provides performance bonds to ensure installations are carried out in accordance with the agreement. If either the contractor or the Company do not comply with the terms of the agreement, the Company would be liable for payments under the terms of the performance bond. The Company has not experienced a loss to date and future losses are not anticipated; therefore, no liability has been recorded in the financial statements. The amount of performance bonds outstanding at year-end is not significant.

(l) Derivative financial instruments:

Derivative financial instruments are utilized by the Company in the management of its foreign currency exposures. The Company's policy is not to utilize derivative financial instruments for trading or speculative purposes.

The Company formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives to specific assets and liabilities on the consolidated balance sheets or to specific firm commitments or forecasted transactions. The Company also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

Gains and losses on foreign exchange contracts identified as a hedge of future transactions are deferred off balance sheet and recognized in earnings when the underlying hedged transaction is recognized.

(m) Shipping and handling:

Amounts billed to clients for shipping and handling of products are recognized as sales in the consolidated statements of earnings. Costs incurred by the Company for shipping and handling are included in cost of sales.

(n) Impairment of long-lived assets:

Long-lived assets, including property, plant and equipment and purchased intangibles subject to depreciation and amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of would be separately presented in the consolidated balance sheets and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated or amortized. The assets and liabilities classified as held for sale would be presented separately in the appropriate asset and liability sections of the consolidated balance sheets.

(o) Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenue and expenses during the years. Significant items subject to such estimates and assumptions include the carrying amount of property, plant and equipment, intangibles and goodwill, valuation allowances for receivables, inventories and future income taxes, and valuation of derivative financial instruments. Actual results could differ from those estimates.

(p) Asset retirement obligations:

The Company recognizes the fair value of a future asset retirement obligation as a liability in the period in which it incurs a legal obligation associated with the retirement of tangible long-lived assets that results from the acquisition, construction, development and/or normal use of the assets. The Company concurrently recognizes a corresponding increase in the carrying amount of the related long-lived asset that is depreciated over the life of the asset. The fair value of the asset retirement obligation is estimated using the expected cash flow approach that reflects a range of possible outcomes discounted at a credit-adjusted risk-free interest rate. Subsequent to the initial measurement, the asset retirement obligation is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. Changes in the obligation due to the passage of time are recognized in earnings as an operating expense using the interest method. Changes in the obligation due to changes in estimated cash flows are recognized as an adjustment of the carrying amount of the related long-lived asset that is depreciated over the remaining life of the asset. During the years ended November 30, 2006 and 2005, the Company determined there were no significant future asset retirement obligations.

(q) Variable interest entities:

The Company has established criteria to identify variable interest entities ("VIEs") and the primary beneficiary of such entities. Entities that qualify as VIEs must be consolidated by their primary beneficiary. During the years ended November 30, 2006 and 2005, the Company had no interests to be consolidated.

2. RELATED PARTY TRANSACTIONS AND BALANCES:

(a) Substantially all related party transactions occurred with an indirect shareholder, Global Upholstery Co. Limited, and entities related to, controlled or significantly influenced by it (collectively "Global").

Transactions between the Company and Global occur at prices that are in accordance with written agreements between the Company and Global. Management believes that the prices and terms at which transactions are conducted with Global are competitive with prices and terms for comparable arm's-length transactions. The Corporate Governance Committee is responsible for and reviews, monitors and establishes all policies for related party transactions.

Related party amounts included in accounts receivable and accounts payable and accrued liabilities are as follows:

	2006	2005
Accounts receivable	$ **3,113**	$ 4,589
Accounts payable and accrued liabilities	**10,925**	12,275

Transactions with related parties are as follows:

	2006	2005
Sales	$ **9,761**	$ 11,006
Purchases	**44,416**	57,215
Other	**8,616**	7,482

(b) The amounts due to companies controlled or significantly influenced by Global are unsecured, non-interest bearing and payable on demand.

3. INCOME TAXES:

Income taxes have been determined in accordance with the legislation prevailing in Canada and the applicable foreign jurisdictions. The effective income tax rate differs from the basic Canadian combined federal and provincial tax rates as follows:

	2006	2005
Earnings before income taxes	$ **3,472**	$ 494
Combined statutory tax rate	**36.1%**	36.1%
Computed income taxes	$ **1,253**	$ 178
Increase (decrease) resulting from:		
Canadian provincial rate differences	**(27)**	64
International rate differences	**(437)**	(492)
Valuation allowance	**(3,688)**	21,291
Corporate minimum taxes	**52**	456
Impact on future taxes of Canadian tax rate reductions	**1,159**	–
Loss with no tax benefit	**2,104**	–
Prior year recoveries	**(354)**	–
Other differences	**(91)**	(349)
	$ **(29)**	$ 21,148

The tax effects of temporary differences that give rise to significant portions of the future tax assets and future tax liabilities at November 30 are presented below:

		2006		2005
Future tax assets:				
Accounts receivable	$	**274**	$	191
Accounts payable and accrued liabilities		**753**		1,012
		1,027		1,203
Long-term debt and capital lease obligations		**3,475**		–
Non-capital loss carryforwards		**51,948**		54,851
Valuation allowance		**(30,449)**		(34,137)
		24,974		20,714
		26,001		21,917
Future tax liabilities:				
Property, plant and equipment – differences in accounting and tax net book values		**(26,001)**		(21,917)
Net future tax asset	**$**	**–**	$	–

Future tax benefits for operating loss and tax credit carryforwards are recognized to the extent that realization of these benefits is considered certain. At November 30, 2006, it was not certain whether the future benefit of operating losses and tax credit carryforwards would be realized and, therefore, the net future tax asset was reduced to nil.

At November 30, 2006, the Company has the following amounts available to reduce future years' income for tax purposes.

Unused tax losses expiring:		
2009	$	11,478
2010		33,115
2014		32,381
2015		6,371
2016		2,617
2023		24,201
2024		4,479
Indefinite		11,711
	$	126,353

At November 30, 2006, the Company had undeducted scientific research and experimental development expenses of $3.3 million that can be carried forward indefinitely.

4. ASSET AND LIABILITY HELD FOR SALE:

On February 12, 2007, the Company sold its U.S. headquarters building. The following table summarizes the transaction:

	$ U.S.	Exchange rate	$ Canadian
Sale price, net of transaction costs of U.S. $697	$ 17,978	$ 1.17	$ 21,079
Net book value	17,452	1.54	26,906
Gain (loss)	$ 526		$ (5,827)

Net proceeds on sale, after the discharge of the mortgage on the property of $13.9 million (U.S. $12.1 million), were $6.9 million.

As the Company's U.S. subsidiary is an integrated foreign operation, property, plant and equipment are translated at historical exchange rates. The prevailing exchange rate at the date of acquisition of the property was U.S. $1.00 = CDN $1.54. Accordingly, this transaction results in an accounting loss of $5.8 million.

5. PROPERTY, PLANT AND EQUIPMENT:

2006	**Cost**	**Accumulated depreciation and amortization**	**Net book value**
Land	**$ 5,409**	**$ –**	**$ 5,409**
Buildings	**30,773**	**7,766**	**23,007**
Computer hardware	**30,234**	**23,389**	**6,845**
Computer software	**19,116**	**13,731**	**5,385**
Manufacturing equipment, office equipment and showrooms	**95,842**	**56,333**	**39,509**
Tools and dies	**47,548**	**19,303**	**28,245**
Leasehold improvements	**37,460**	**26,195**	**11,265**
Patents and trademarks	**4,157**	**2,502**	**1,655**
Property under capital leases:			
Manufacturing equipment	**15,847**	**267**	**15,580**
	$ 286,386	**$ 149,486**	**$ 136,900**

2005	Cost	Accumulated depreciation and amortization	Net book value
Land	$ 8,693	$ –	$ 8,693
Buildings	61,570	13,098	48,472
Computer hardware	29,426	21,822	7,604
Computer software	18,755	12,697	6,058
Manufacturing equipment, office equipment and showrooms	132,148	71,838	60,310
Tools and dies	45,181	17,919	27,262
Leasehold improvements	34,540	24,181	10,359
Patents and trademarks	3,855	2,187	1,668
	$ 334,168	$ 163,742	$ 170,426

6. PREPAID RENT:

On November 30, 2006, the Company sold equipment for proceeds of $10.5 million and simultaneously entered into a seven-year sale-leaseback with the buyer. The sale-leaseback has been accounted for as a capital lease. The difference between the amount received in this transaction and the net book value of the equipment is reflected on the consolidated balance sheets as prepaid rent.

7. OPERATING LOANS:

At November 30, 2006, Teknion had available secured operating lines of credit of up to $111.9 million (2005 – $105.1 million). Borrowings under these lines of credit bear interest at varying rates ranging from the banks' prime rate minus 0.25% to plus 2% per annum. The Company and certain of its subsidiaries have entered into general security agreements and undertaken an assignment of certain assets to secure bank borrowings.

During 2006, the Company entered into a revolving facility with a related party for $6.8 million bearing interest at the bank's prime rate plus 0.5%. This facility was undrawn at year-end.

8. LONG-TERM DEBT:

	2006	2005
U.S. $12.1 million (2005 – U.S. $12.7 million) mortgage loan, bearing interest at 1.5% over the five-year treasury rate, payable in monthly instalments of $38,000 plus interest, secured by a first mortgage lien on real estate of the Company's New Jersey, U.S. subsidiary (net book value – U.S. $15.2 million; 2005 – U.S. $16.2 million), due October 2012 (NOTE 4)	**$ –**	$ 14,768
U.S. $1.0 million (2005 – U.S. $1.15 million) 1998 industrial revenue bonds, bearing interest at the variable seven-day market rate plus 1.5%, principal repayments made monthly to March 1, 2018, secured by a second mortgage on real estate and a charge over book debts of the Company's Minnesota, U.S. subsidiary	**1,131**	1,348
2.4 million (2005 – 5.4 million) Malaysian ringgit term loan, bearing interest at 7.0%, payable in monthly instalments of 0.10 million Malaysian ringgit, secured by a charge over land, buildings and all assets of the Company's Malaysian subsidiary, due May 2009	**764**	1,682
	1,895	17,798
Less current portion	**667**	1,711
	$ 1,228	$ 16,087

Annual principal repayments on long-term debt are due as follows:

2007	$	667
2008		262
2009		127
2010		80
2011		86
Thereafter		673
	$	1,895

Interest expensed on long-term debt was $876,000 in 2006 (2005 – $1.0 million).

9. CAPITAL LEASE OBLIGATIONS:

During the year, the Company entered into capital lease arrangements for machinery and equipment totalling $15.8 million. The obligations are repayable over five to seven years and bear interest at fixed rates ranging from 5.86% to 5.96%.

Annual minimum lease payments are as follows:

2007	$	2,038
2008		2,407
2009		3,171
2010		3,171
2011		3,239
Thereafter		5,110
Total minimum lease payments		19,136
Less amount representing interest		3,622
Total capital lease obligations		15,514
Less current portion		1,163
	$	14,351

Interest expensed for capital lease obligations was $157,000 in 2006 (2005 – nil).

10. SHARE CAPITAL:

	2006	2005
Authorized:		
Unlimited Class A preference shares, non-voting		
Unlimited Class B preference shares, non-voting		
39,919,846 multiple voting shares		
Unlimited subordinate voting shares		
Issued:		
39,919,846 multiple voting shares	$ 5,051	$ 5,051
24,196,285 subordinate voting shares	101,954	101,954
	$ 107,005	$ 107,005

(a) Class A and Class B preference shares:

Class A and Class B preference shares are issuable in series, with other attributes to be determined at the time of issue. The Class A preference shares will rank prior to the Class B preference shares and both will rank prior to the multiple voting shares and subordinate voting shares as to dividends and as to distributions in the event of liquidation, dissolution or winding up of the Company.

(b) Multiple voting shares and subordinate voting shares:

During fiscal 2006, no shareholders converted multiple voting shares (2005 – none) on a one-for-one basis to subordinate voting shares. In 2006, there were no subordinate voting shares issued on the exercise of stock options. In fiscal 2005, 14,875 shares were issued for cash consideration of $77,350 on the exercise of stock options.

The multiple and subordinate voting shares rank equally on a share-for-share basis as to dividends and as to distributions in the event of liquidation, dissolution or winding up of the Company. The multiple voting shares carry 10 votes per share and are convertible into subordinate voting shares on a one-for-one basis at the option of the holder. The subordinate voting shares carry one vote per share.

(c) Stock option plan:

The Company's stock option plan is for directors, officers, employees and affiliates of the Company. The stock option plan is administered by a committee of the Board of Directors of the Company. The price at the date of grant cannot be less than the market price at issue of the subordinate voting shares on any stock exchange on which the subordinate voting shares are listed. The term of the options range from 5 to 10 years and are non-assignable, except in certain limited circumstances. The vesting periods of options granted under the stock option plan range from four to five years, as determined by a committee of the Board of Directors of the Company at the time the options are granted. The Board of Directors of the Company may, from time to time, amend or revise the terms of the stock option plan, subject to applicable law and the rules of any stock exchange on which the subordinate voting shares are listed, or may discontinue the stock option plan at any time. The maximum number of subordinate voting shares that may be issued pursuant to the stock option plan is 6,072,190 subordinate voting shares.

In 2006, the Company granted 512,500 stock options at an exercise price of $5.60 (2005 – no options were granted). The compensation expense recorded for the year ended November 30, 2006, in respect of stock options granted on or after December 1, 2003, was $281,900 (2005 – $56,900) based on a four-year vesting period. The counterpart is recorded as contributed surplus. Any consideration paid by employees on exercise of stock options is credited to share capital. The fair value of each option granted has been estimated at the date of grant using the Black-Scholes option pricing model as detailed in the following table.

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

	Risk-free rate of return	Volatility factor	Expected life of options	Options granted	Fair value per option granted
2006	**4.03%**	**44%**	**5 years**	**512,500**	**$ 2.46**
2005	–	–	–	–	–

The following is a summary of the number of subordinate voting shares issuable pursuant to outstanding stock options:

	2006		2005	
	Number of shares	**Weighted average price**	Number of shares	Weighted average price
Options outstanding, beginning of year	**3,826,745**	**$ 10.44**	4,038,790	$ 10.47
Exercise of options	**–**	**–**	(14,875)	5.20
Options cancelled and expired	**(1,037,075)**	**12.03**	(197,170)	11.46
Grant of additional options	**512,500**	**5.60**	–	–
Options outstanding, end of year	**3,302,170**	**$ 9.19**	3,826,745	$ 10.44

	2006	2005
Weighted average subscription price of outstanding options	**$ 9.19**	$ 10.44
Number of options exercisable at November 30	**2,624,840**	3,272,451
Weighted average subscription price of outstanding exercisable options	**$ 10.15**	$ 11.06

The range of subscription prices for options granted and exercised were as follows:

	2006 High	2006 Low	2005 High	2005 Low
Grant of options	**$ 5.60**	**$ 5.60**	$ –	$ –
Exercise of options	–	–	6.70	6.25

	Total options outstanding			Total options exercisable	
Range of exercise prices	Number outstanding, November 30, 2006	Weighted average remaining contractual life (years)	Weighted average exercise price	Number exercisable, November 30, 2006	Weighted average exercise price
$ 5.20–$ 8.99	1,205,575	5.69	$ 5.40	528,245	$ 5.28
$ 9.00–$12.99	1,332,595	4.12	9.85	1,332,595	9.85
$13.00–$15.99	727,000	4.00	13.75	727,000	13.75
$16.00–$21.20	37,000	4.11	19.39	37,000	19.39
	3,302,170	4.67	$ 9.19	2,624,840	$ 10.15

(d) Deferred share units:

During 2005, the Company established a plan to grant Deferred Share Units ("DSUs") to its non-management directors. Under this plan, the directors may elect to receive a portion of their annual compensation in DSUs. A DSU is a unit equivalent in value to one common share of the Company based on the 20-day average trading price of the Company's common shares on The Toronto Stock Exchange (the "Weighted Average Price") immediately prior to the date on which the value of the DSU is determined. DSUs may be redeemed following termination of Board service, and prior to the end of the year following departure from the Board, based on the Weighted Average Price at the time of redemption.

As of the date of the grant, the fair value of the DSUs outstanding, being the fair market value of the Company's common shares at that date, are expensed in the period and a liability is recorded on the Company's consolidated balance sheet. The value of the DSU liability is adjusted to reflect changes in the market value of the Company's common shares. The expense for fiscal 2006 related to DSUs granted to the directors for services rendered was $177,000 (2005 – $30,000).

(e) Employee stock purchase plan ("ESPP"):

The Company's ESPP allows employees to purchase subordinate voting shares through payroll deductions. Shares authorized for issuance under the ESPP are 1,566,122. To date, the Company has satisfied issuance of subordinate voting shares by purchasing them through the facilities of The Toronto Stock Exchange and no shares have been issued from treasury.

11. EARNINGS (LOSS) PER SHARE:

The following table sets forth the computation of basic and diluted earnings (loss) per share:

	2006	2005
Numerator for basic and diluted earnings (loss) per share – net earnings (loss)	**$ 3,501**	$ (20,654)
Denominator for basic and diluted earnings per share – weighted average shares	**64,116,131**	64,107,352
Basic and diluted earnings (loss) per share	**$ 0.05**	$ (0.32)

12. COMMITMENTS:

The minimum annual lease payments under long-term operating leases for premises and equipment for the next five fiscal years and thereafter are as follows:

2007	$ 14,530
2008	11,531
2009	9,003
2010	5,613
2011	4,499
Thereafter	12,530
	$ 57,706

13. SEGMENTED INFORMATION:

Industry:

The Company is considered to operate in one operating segment, that being the design, manufacture and marketing of office systems and related office furniture products.

Geographic:	2006	2005
Sales (based on location of customer):		
Canada	$ 219,094	$ 204,731
United States	347,525	341,667
International	64,635	59,785
	$ 631,254	$ 606,183
Total assets:		
Canada	$ 215,414	$ 224,548
United States	136,714	128,738
International	45,922	41,561
	$ 398,050	$ 394,847
Property, plant and equipment:		
Canada	$ 112,066	$ 119,651
United States	12,444	37,913
International	12,390	12,862
	$ 136,900	$ 170,426
Goodwill:		
Canada	$ 10,124	$ 10,124
United States	18,807	18,807
International	1,943	1,943
	$ 30,874	$ 30,874

14. FINANCIAL INSTRUMENTS:

Teknion operates internationally, which gives rise to a risk that earnings and cash flows may be adversely affected by fluctuations in foreign exchange rates. Foreign exchange contracts are used by the Company to manage foreign exchange risk. The Company does not enter into foreign exchange contracts for speculative purposes.

(a) Foreign exchange contracts:

Teknion enters into foreign exchange contracts to limit its exposure to foreign exchange fluctuations on future revenue and expenditure streams. At November 30, 2006, the Company had outstanding foreign exchange contracts representing a commitment to sell U.S. $61.0 million at an average rate of exchange of $1.13 (2005 – U.S. $88.0 million at an average rate of exchange of $1.223). The fair value of these contracts was $0.5 million in favour of the counterparties at November 30, 2006 (2005 – $4.7 million in favour of the Company). These contracts mature within 11 months (2005 – 13 months).

In addition, the Company holds foreign exchange options totalling U.S. $11.0 million (2005 – nil). These options have an average rate of exchange of $1.15. However, if at any time the exchange rate falls below a preset exchange rate prior to the exercise date, these options are cancelled. The rates at which the options are cancelled range from $1.04 to $1.09. The fair value of these contracts at November 30, 2006, was nil. As these options are not designated as hedging instruments, their change in fair market value is recorded in the consolidated statements of earnings. During the year, the Company recorded a nominal amount in the consolidated statements of earnings (2005 – nil).

(b) Fair values of other financial instruments:

Teknion has evaluated the fair values of its other financial instruments based on the current interest rate environment, related market values and current pricing of financial instruments with comparable terms. The carrying amounts of cash, accounts receivable, operating loans, accounts payable and accrued liabilities and due to affiliated companies approximate fair values due to the short-term nature of these instruments. Long-term debt and capital lease obligations approximate market value as the interest rate charged on this amount is comparable to the current borrowing rate of the Company.

(c) Credit risk:

The Company, in the normal course of business, is exposed to credit risk from its customers. In addition, Teknion is also exposed to credit risk from the potential default by any of its counterparties on its foreign exchange forward contracts. The Company controls its credit risk by following established credit and collection policies and dealing with counterparties that are major financial institutions and which the Company anticipates will satisfy their obligations under the contracts.

15. COMPARATIVE FIGURES:

Certain 2005 figures have been reclassified to conform with the financial statement presentation adopted in 2006.

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ANNUAL MEETING

Tuesday, May 15, 2007
10:00 a.m. (eastern standard time)
Design Exchange
234 Bay Street
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Toronto, Ontario
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Teknion's commitment to sustainability practices is reflected in our design, manufacturing and daily operations. These initiatives drive our growth and innovation, strengthen client relationships, and are good for business and, of course, the environment. We are committed to continually learning from and evaluating our results to achieve our goal of total sustainability.

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