Interim Consolidated Financial Statements

# Opsens Inc.

Three-month periods ended November 30, 2009 and 2008

# Notice

These interim consolidated financial statements have not been reviewed by the Company’s external auditors.

# Opsens Inc.
November 30, 2009 and 2008

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# Opsens Inc.

## Consolidated Statements of Loss and Comprehensive Loss
## Three-month periods ended November 30, 2009 and 2008

(unaudited)

| | Three-month period ended November 30, 2009 | Three-month period ended November 30, 2008 |
|---|---|---|
| | $ | $ |
| Revenues | | |
| Sales | 1,070,353 | 611,893 |
| Cost of sales | 621,356 | 421,496 |
| Gross margin | 448,997 | 190,397 |
| Expenses (Revenues) | | |
| Administrative | 401,112 | 314,696 |
| Marketing | 204,764 | 194,417 |
| Research and development | 211,834 | 204,868 |
| Stock option-based compensation (Note 5b) | 55,657 | 67,320 |
| Amortization of property, plant and equipment | 42,382 | 35,779 |
| Amortization of intangible assets | 4,744 | 5,021 |
| Financial charges (income) (Note 3) | 24,847 | (76,355) |
| | 945,340 | 745,746 |
| Loss before income taxes | (496,343) | (555,349) |
| Income taxes | - | - |
| **Net loss and comprehensive loss** | (496,343) | (555,349) |
| Net loss per share (Note 6) | | |
| Basic | (0.01) | (0.01) |
| Diluted | (0.01) | (0.01) |

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

# Opsens Inc.

Consolidated Statements of Shareholders' Equity
Period ended November 30, 2009
(unaudited)

| | Common shares | Warrant | Stock options | **Total** | Common Shares | Stock options | Warrant | Contributed surplus | Deficit | **Total** |
|---|---|---|---|---|---|---|---|---|---|---|
| | (number) | (number) | (number) | **(number)** | $ | $ | $ | $ | $ | **$** |
| Balance as at August 31, 2009 | 43,398,344 | 2,889,509 | 2,788,000 | **49,075,853** | 12,035,259 | 783,936 | 856,077 | 595,047 | (8,728,706) | **5,541,613** |
| Share issuance – Warrants exercised | 178,889 | (178,889) | - | **-** | 206,580 | - | (63,469) | - | - | **143,111** |
| Share issuance – Stock options | 1,250 | - | (1,250 ) | **-** | 1,404 | (316) | - | - | - | **1,088** |
| Options granted | - | - | 40,000 | **40,000** | - | - | - | - | - | **-** |
| Options cancelled | - | - | (6,000) | **(6,000)** | - | - | - | - | - | **-** |
| Stock-based compensation | - | - | - | **-** | - | 55,657 | - | - | - | **55,657** |
| Net loss | - | - | - | **-** | - | - | - | **-** | (496,343) | **(496,343)** |
| Balance as at November 30, 2009 | 43,578,483 | 2,710,620 | 2,820,750 | **49,109,853** | 12,243,243 | 839,277 | 792,608 | 595,047 | (9,225,049) | **5,245,126** |

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

# Opsens Inc.

Consolidated Statements of Shareholders' Equity
Period ended November 30, 2008
(unaudited)

| | Common shares | Warrant | Stock options | **Total** | Common Shares | Stock options | Warrant | Contributed surplus | Deficit | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| | (number) | (number) | (number) | **(number)** | $ | $ | $ | $ | $ | **$** |
| Balance as at August 31, 2008 | 40,431,677 | 8,104,453 | 2,242,500 | **50,778,630** | 10,257,259 | 554,528 | 1,400,069 | - | (6,382,486) | **5,829,370** |
| Share issuance – warrants exercised | 50,000 | (50,000) | - | **-** | 28,000 | - | (8,000) | - | - | **20,000** |
| Warrants cancelled | - | (5,258,000) | - | **(5,258,000)** | - | - | (578,380) | 578,380 | - | **-** |
| Options granted | - | - | 210,000 | **210,000** | - | - | - | - | - | **-** |
| Options cancelled | - | - | (10,000) | **(10,000)** | - | - | - | - | - | **-** |
| Stock-based compensation | - | - | - | **-** | - | 67,320 | - | - | - | **67,320** |
| Net loss | - | - | - | **-** | - | - | - | - | (555,349) | **(555,349)** |
| Balance as at November 30, 2008 | 40,481,677 | 2,796,453 | 2,442,500 | **45,720,630** | 10,285,259 | 621,848 | 813,689 | 578,380 | (6,937,835) | **5,361,341** |

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

# Opsens Inc.
## Consolidated Balance Sheets

| | November 30, 2009 (unaudited) | August 31, 2009 (audited) |
|---|---|---|
| | $ | $ |
| **Assets** | | |
| Current | | |
| Cash and cash equivalents (Note 7) | 2,120,195 | 2,887,085 |
| Accounts receivable | 927,232 | 573,310 |
| Income tax credits receivable | 255,664 | 214,624 |
| Inventories | 1,305,264 | 1,125,260 |
| Prepaid expenses | 74,451 | 80,198 |
| | 4,682,806 | 4,880,477 |
| Property, plant and equipment | 698,352 | 723,424 |
| Intangible assets | 174,921 | 169,799 |
| Goodwill | 676,574 | 676,574 |
| | 6,232,653 | 6,450,274 |
| **Liabilities** | | |
| Current | | |
| Accounts payable and accrued liabilities | 615,519 | 518,782 |
| Current portion of long-term debt | 137,224 | 133,440 |
| | 752,743 | 652,222 |
| Long-term debt | 234,784 | 256,439 |
| | 987,527 | 908,661 |
| **Shareholders' equity** | | |
| Share capital (Note 5a) | 12,243,243 | 12,035,259 |
| Stock-options (Note 5b) | 839,277 | 783,936 |
| Warrants (Note 5c) | 792,608 | 856,077 |
| Contributed surplus | 595,047 | 595,047 |
| Deficit | (9,225,049) | (8,728,706) |
| | 5,245,126 | 5,541,613 |
| | 6,232,653 | 6,450,274 |

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

Approved by the Board

*Signed [Mario Jacob]* Director

*Signed [Pierre Carrier]* Director

# Opsens Inc.

## Consolidated Statements of Cash Flows
## Three-month periods ended November 30, 2009 and 2008

(unaudited)

| | Three-month period ended November 30, 2009 | Three-month period ended November 30, 2008 |
|---|---|---|
| | $ | $ |
| **Operating activities** | | |
| Net loss | (496,343) | (555,349) |
| Adjustments for: | | |
| Amortization of property, plant and equipment | 42,382 | 35,779 |
| Amortization of intangible assets | 4,744 | 5,021 |
| Premium payable to Investissement Québec | - | 2,130 |
| Stock option-based compensation | 55,657 | 67,320 |
| Changes in non-cash operating working capital items (Note 7) | (472,482) | 309,230 |
| | (866,042) | (135,869) |
| **Investing activities** | | |
| Acquisition of property, plant and equipment | (17,310) | (158,095) |
| Acquisition of intangible assets | (9,866) | (5,875) |
| | (27,176) | (163,970) |
| **Financing activities** | | |
| Increase in long-term debt | 5,586 | 6,817 |
| Reimbursement of long-term debt | (23,457) | (43,262) |
| Issuance of equity component | 144,199 | 20,000 |
| | (126,328) | (16,445) |
| Decrease in cash and cash equivalents | (766,890) | (316,284) |
| Cash and cash equivalents at beginning | 2,887,085 | 3,742,520 |
| Cash and cash equivalents at end | 2,120,195 | 3,426,236 |

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

Additional information is presented in Note 7.

## 1. Changes in accounting policies

*Changes applied for the exercise ended August 31, 2010*

On September 1, 2009, the Company adopted the new accounting standards issued by the Canadian Institute of Chartered Accountants ("CICA"):

a) Section 3064, "Goodwill and intangible assets", replacing Section 3062, "Goodwill and other intangible assets" and Section 3450, "Research and development costs". The new section will be applicable to financial statements relating to fiscal years beginning on or after October 1, 2008. Accordingly, the Company adopted the new standards for its fiscal year beginning September 1, 2009. It establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. The Company adoption of this new Section did not have a material impact on its interim and annual consolidated financial statements.

*Changes applied for the exercise ended August 31, 2009*

On September 1, 2008, the Company adopted the new accounting standards issued by the Canadian Institute of Chartered Accountants ("CICA") regarding "Capital Disclosures" (Section 1535), "Inventories" (Section 3031), "Instruments – Disclosures" (Section 3862) and "Financial Instruments – Presentation" (section 3863). The new standards were applied without restatement of comparative financial statements.

*Inventories*

Section 3031 provides guidance on the determination of cost and its subsequent recognition as an expense, including any write-down to net realizable value. It also provides guidance on the cost formulas that are used to assign costs to inventories.

Since this standard came into effect, the Company has been recording its raw materials inventory at the lower of cost and net realizable value. In the past, the Company recorded raw materials inventory at the lower of cost and replacement value. This new policy has no impact on the current consolidated financial statements.

*Capital Disclosures*

Section 1535 "Capital Disclosures", established standards for disclosing information about an entity's capital and how it is managed. It describes the disclosure requirements of the entity's objectives, policies and processes for managing capital, the quantitative data relating to what the entity regards as capital, whether the entity has complied with capital requirements, and, if it has not complied, the consequences of such non-compliance. Since the standard came into effect, the Company has been presenting relevant information about capital management in the "Capital Management" note.

*Financial Instruments*

Sections 3862 and 3863 place heightened importance on disclosure, enabling financial statement users to assess the nature and extent of the risks associated with the financial instruments to which the Company is exposed and the manner in which it manages these risks.

**1. Changes in accounting policies** (continued)

*Future accounting changes*

The CICA has issued new accounting standards:

a) In January 2009, the CICA issued Handbook Section 1582, Business Combinations, replacing Section 1581, Business Combinations. The Section establishes standards for the accounting for a business combination. It provides the Canadian equivalent to the IFRS standard, IFRS 3 (Revised), Business Combinations. The Section applies prospectively to business combinations for which the acquisition date is on or after January 1, 2011. Earlier application is permitted. As this section is consistent with IFRS, it will be applied in accordance with our IFRS conversion framework.

b) In January 2009, the CICA issued Section 1601, Consolidated Financial Statements, and Section 1602, non-controlling interests, which together replace Section 1600, Consolidated Financial Statements. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. It is equivalent to the corresponding provisions of IFRS standard, IAS 27 (Revised), Consolidated and Separate Financial Statements. The Sections apply to interim and annual consolidated financial statements relating to fiscal years beginning on January 1, 2011. Earlier adoption is permitted as of the beginning of a fiscal year. As these sections are consistent with IFRS, they will be applied in accordance with our IFRS conversion framework.

*International Financial Reporting Standards*

The Accounting Standards Board of Canada has announced that accounting standards in Canada, as used by public companies, will converge to International Financial Reporting Standards ("IFRS") over a transition period that is expected to be complete by 2011. On February 13, 2008, the CICA confirmed 2011 as the official changeover date from current Canadian GAAP to IFRS. The changeover date applies to the annual and interim financial statements beginning on or after January 1, 2011. The Company will convert to these new standards according to the timetable set with these new rules.

The Company is currently assessing the future impact of these new standards on its financial information systems and its consolidated financial statements.

## 2. Accounting policies

The significant accounting policies used to prepare these financial statements are summarized below.

*Principles of consolidation*

The interim consolidated financial statements include the accounts of the Company and those of its wholly-owned subsidiary Opsens Solutions Inc.

*Unaudited interim financial statements*

The accompanying unaudited interim financial statements are prepared in accordance with Canadian generally accepted accounting principles ("GAAP") for interim financial statements, and they are consistent with the accounting policies and methods used in the preparation of the Company's most recent audited financial statements. However, they do not include all information required for annual consolidated financial statements. These unaudited consolidated interim financial statements and related notes should be read in conjunction with the most recent Company's annual audited financial statements.

The consolidated financial statements as at November 30, 2009 and for the three-month periods ended November 30, 2009 and 2008 are unaudited. However, in the opinion of management, all adjustments, consisting solely of normal recurring adjustments, considered necessary for a fair presentation of the consolidated results of operations for the period presented, have been included. Consolidated results for the interim periods presented are not necessarily indicative of the results that may be expected for the year.

All amounts are disclosed in Canadian dollars.

*Use of estimates*

The presentation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingencies at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The main accounting estimates relate to the income tax credit receivable, the provision for warranty and the assumptions used in the determination of the fair value of the stock options and warrants. Actual results could differ from those estimates.

*Cash and cash equivalents*

Cash and cash equivalents include cash and short-term investments redeemable anytime or with a maturity of three months or less beginning on the acquisition date.

*Inventories*

Inventories are valued at the lower of cost and net realizable value. Cost is determined using the moving average method.

*Goodwill*

Goodwill representing the excess of purchase price over fair value of the net identifiable assets of acquired businesses is tested for impairment annually or more frequently when an event or circumstance occurs that indicates that goodwill might be impaired. When the carrying amount exceeds the fair value, an impairment loss is recognized in the statement of earnings in an amount equal to the excess.

**2. Accounting policies** (continued)

*Revenue recognition*

Opsens Inc. reportable segment revenues related to the sale of products are recognized when persuasive evidence of an arrangement exists, delivery has occurred, the price to the buyer is fixed or determinable and collection is reasonably assured.

Opsens Solutions Inc. reportable segment revenues related to the sale or products and sensor installation services are recognized when persuasive evidence of an arrangement exists, on site installation has occurred, the price to the buyer is fixed or determinable and collection is reasonably assured. For contract revenues earned over a long period, revenues are recorded using the percentage of completion method. Therefore, these revenues are recognized proportionately with the degree of completion of the work. The Company uses the efforts expended method to calculate the degree of completion of work based on the number of hours incurred as at the balance sheet date compared to the estimated total number of hours. Work in progress is valued by taking into consideration the number of hours worded but not yet invoiced and the payments received. Losses are recorded as soon as they become apparent.

*Loss per share*

Loss per share is determined using the weighted average number of outstanding shares during the period. The Company uses the treasury stock method to calculate the diluting effect of share purchase options and warrants. Reconciliations of the numerators and the denominators used in the calculation of the basic and diluted loss are disclosed in accordance with the GAAP.

*Stock-based compensation and other stock-based payments*

The Company uses the fair value method to assess the fair value of stock options or warrants as at their date of allocation. The fair value is determined using the Black-Scholes option pricing model and is amortized to earnings over the vesting period with an offset to contributed surplus. When stock options or warrants are exercised, the corresponding contributed surplus and the proceeds received by the Company are credited to share capital.

*Financial instruments*

Short-term investments are classified as financial instruments “held for trading”. As such, these financial instruments are recorded at their fair values. Changes in the fair value of held for trading instruments are recorded as investment income and disclosed as financial expenses in the income statement.

Accounts receivable are classified as loans and receivables, and are recorded at amortized cost.

Accounts payable, accrued liabilities and long-term debt are classified as “other liabilities” and are recorded at amortized cost.

Transaction fees related to “other liabilities” are capitalized and presented against long-term debt. They are amortized using the effective interest rate and are recorded in the income statement.

## 3. Financial instruments

*Cash equivalents and temporary investments*

The Company is exposed to various types of risks in the management of its cash and cash equivalents, including those related to the use of financial instruments. To manage these risks, controls were put in place, particularly those related to investment policy. The investment policy is approved by the Board of Directors. The Company's investment policy aims primarily to protect capital, while considering return on investment and income taxes.

*Market Risk*

Market risk is the risk that the value of a financial instrument will fluctuate as a result of changes in the parameters underlying their measurement, particularly interest rates and market prices.

*Interest Rate Risk*

Interest rate risk exists when interest rate fluctuations modify the cash flows of the Company's investments. The Company owns investments with fixed interest rates. As of November 30, 2009, the Company was holding more than 88.6% of its cash equivalents in all time redeemable term-deposit.

*Financial charges (income)*

| | **2009** | 2008 |
|---|---|---|
| | **$** | $ |
| Interest and bank charges | **3,988** | 4,758 |
| Interest on long-term debt | **7,416** | 7,557 |
| Loss (Gain) on foreign currency translation | **26,899** | (59,909) |
| Interest income | **(13,456)** | (28,761) |
| | **24,847** | (76,355) |

*Credit Risk*

The use of financial instruments can create a credit risk that is the risk of financial loss resulting from a counterparty's inability or refusal to fully discharge its contractual obligations. The Company's credit risk management policies include the authorization to carry out investment transactions with recognized financial institutions, with credit ratings of at least A and higher, in either bonds, money market funds or guaranteed investment certificates. Consequently, the Company manages credit risk by complying with established investment policies.

*Concentration Risk*

Concentration risk exists when investments are made with multiple entities that share similar characteristics or when a large investment is made with a single entity. As of November 30, 2009, the Company was holding more than 88.6% of its cash equivalents portfolio in all time redeemable term-deposit.

**3. Financial instruments** (continued)

*Operational credit risk*

The Company provides credit for a conventional period of 30 days to its customers in the normal course of business. Credit evaluations are performed on an ongoing basis of all its accounts receivable and an allowance for doubtful accounts is recorded when those accounts are deemed uncollectible. Four major customers represent 61.61% of the Company's accounts receivable as at November 30, 2009.

As at August 31, 2009, 8.19% of the accounts receivable were of more than 90 days whereas 41.93% of those were with less than 30 days. The maximum exposure to the risk of credit for receivable corresponded to their book value. On November 30, 2009, the bad debt provision was established at $14,678 ($14,678 on August 31, 2009).

Management considers that substantially all receivables are fully collectible as most of our customers are large corporations with good credit standing and no history or default.

*Interest rate and cash flow risk*

The Company is exposed to interest rate fluctuations on certain long-term debt that bears interest at variable rates. The Company does not actively manage this risk.

Assuming the cash equivalents and long-term debt as reported on November 30, 2009 and 2008 had been the same throughout the period, a hypothetical 1% interest rate increase would have had an unfavourable impact of $371 and $1,000 on the net loss for the three-month period ended November 30, 2009 and 2008. The net loss would have had an equal but opposite effect for a hypothetical 1% interest rate decrease.

*Foreign exchange risk*

The Company realizes certain sales and purchases certain supplies and professional services in US dollars. Therefore, it is exposed to foreign currency fluctuations. The Company does not actively manage this risk.

For the three-month ended November 30, 2009 and 2008, if the Canadian dollar had strengthened 10% against the U.S. dollar with all other variables held constant, after-tax net income and other comprehensive income would have been respectively $47,000 and $26,000 lower. Conversely, if the Canadian dollar had weakened 10% against the U.S. dollar with all other variables held constant, after-tax net income and other comprehensive income would have been $47,000 and $26,000 higher for the same periods.

As at November 30, 2009, the risk to which the Company was exposed is established as follows:

| | 2009 |
|---|---|
| | $ |
| Cash | 213,830 |
| Accounts receivable | 606,963 |
| Accounts payable and accrued liabilities | (183,316) |
| Total | 637,477 |

## 3. **Financial instruments** (continued)

*Fair value*

The fair value of cash and cash equivalents, accounts receivable, income tax credits receivable and accounts payable and accrued liabilities approximate their carrying value due to their short-term maturities.

The fair value of long-term debt is based on the discounted value of future cash flows under the current financial arrangements at the interest rate the Company expects to currently negotiate for loans with similar terms and conditions and maturity dates. The fair value of long-term debt approximates its carrying value due to the current market rates.

*Liquidity Risk*

Liquidity risk represents the possibility of the Company not being able to raise the funds needed to meet financial commitments at the appropriate time and under reasonable conditions. The Company manages this risk by maintaining permanent and sufficient liquidity to meet current and future financial obligations, under both normal and exceptional circumstances. The funding strategies used to manage this risk include turning to capital markets to carry out issues of equity and debt securities.

*Liquidity Risk* (continued)

The following are the contractual maturities of the financial liabilities, principal and interest (assuming current interest rates), as at November 30, 2009:

| | Total | 0 to 12 months | 1 year to 2 years | 2 years to 5 years | More than 5 years |
|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ |
| Accounts payable and accrued liabilities | 615,519 | 615,519 | - | - | - |
| Long-term debt | 407,567 | 151,875 | 136,437 | 119,255 | - |
| Obligation under capital lease | 81,499 | 33,904 | 18,433 | 29,162 | - |
| Commitments | 704,942 | 231,677 | 173,757 | 299,508 | - |
| Total | 1,809,527 | 1,032,975 | 328,627 | 447,925 | - |

## 4. Capital management

The Company uses its capital to finance marketing expenses, research and development activities, administrative and working capital and capital assets. Historically, the Company has financed activities through rounds of public and private financing, debt financing as well as government grants.

The Company quarterly reviews net loss and Earnings before Interest, Taxes, Depreciation, Amortization and Stock option-based compensation "EBITDAO". The EBITDAO has no normalized sense prescribed by the CICA. It is not very probable that this measure is comparable with measures of the same type presented by other issuers. The EBITDAO is defined by the Company as the cash flows from operating activities without taking in consideration changes in non-cash operating working capital items.

| | **Three-month period ended November 30, 2009** | Three-month period ended November 30, 2008 |
|---|---|---|
| | **$** | $ |
| **Net loss** | **(496,343)** | (555,349) |
| Financial charges (income) | **24,847** | (76,355) |
| Amortization of property, plant and equipment | **42,382** | 35,779 |
| Amortization of intangible assets | **4,744** | 5,021 |
| Stock option-based compensation | **55,657** | 67,320 |
| **EBITDAO** | **(368,713)** | (523,584) |

The Company targets to improve these figures which positively vary for the three-month period ended November 30, 2009 compare to the same period in 2008. The Company believes that its current liquid assets are sufficient to finance its activities on the short-term.

The Company has an authorized line of credit for a maximum amount of $200,000, $50,000 of which is available at all times and which does not take into consideration the margining. When using the line of credit in an amount varying from $50,000 and $100,000, the available credit is limited to an amount that is equal to 75% of Canadian accounts receivable and 65% of foreign accounts receivable plus 50% of inventories of raw materials and finished goods. If the amount used exceeds $100,000, the credit available is limited to an amount equal to 75% of Canadian accounts receivable and 90% of ensured foreign accounts receivable plus 50% of inventories of raw materials and finished goods. Under the terms and conditions of the credit agreement, the Company is subject to certain covenants with respect to maintaining minimum financial ratios related to the maintenance of a maximum ratio of 3 to 1 for total debt to equity, and a ratio of at least than 1.5 for debt to working capital, with a minimum working capital of $200,000. These ratios apply to long-term debt valued at $49,608 as of November 30, 2009. The covenants are met as of November 30, 2009.

## 5. Share capital, stock-options and warrants

*a) Share capital*

*Authorized*, unlimited number

Common shares, voting and participating without par value

Outstanding shares and the changes occurred during the year are as follows:

*Issued and fully paid*

| | Number | Amount |
|---|---|---|
| | | $ |
| Balance at beginning of year | 43,398,344 | 12,035,259 |
| Share issuance – Warrants exercised (Note 5a)i) | 178,889 | 206,580 |
| Share issuance – Stock options exercised (Note 5a)ii) | 1,250 | 1,404 |
| Balance as at November 30, 2008 | 43,578,483 | 12,243,243 |

*i) Warrants exercised*

During the period ended November 30, 2009, 178,889 warrants entitling their holders to acquire one common share of the Company at a price of $0.80 per share were exercised for a total amount of $143,111. The book value of the exercised warrants was transferred to Share capital for an amount of $63,469.

*ii) Stock options exercised*

During the period ended November 30, 2009, 1,250 stock options entitling their holders to acquire one common share of the Company at a price of $0.87 per share were exercised for a total amount of $1,088. The book value of the exercised warrants was transferred to Share capital for an amount of $316.

*b) Stock options*

The Company changed the stock option plan on January 20, 2009. The number of common shares reserved by the Board of Directors for options granted under the plan shall not exceed 10% of the issued and outstanding common shares of the Company. The plan is available to the Company's directors, consultants, officers and employees.

The stock option plan stipulates that the terms of the options and the option price shall be fixed by the directors subject to the price restrictions and other requirements imposed by TSX Venture Exchange. The exercise period cannot exceed five years, beginning on the grant date. These options generally vest over a four-year period, except for 620,000 outstanding options granted which are completely vested at grant.

The compensation expense in regards to the stock option plan included in the administrative expenses for the period ended November 30, 2009 is $55,657 ($67,320 for the period ended November 30, 2008).

## 5. Share capital, stock-options and warrants (continued)

### b) *Stock options* (continued)

The situation of the outstanding stock option plan and the changes that took place during the period ended November 30, 2009 are as follows:

| | Number of options | Weighted average exercise price |
|---|---|---|
| | | $ |
| Outstanding at beginning of year | 2,788,000 | 0.52 |
| Options granted | 40,000 | 1.15 |
| Options exercised (Note 5a)ii) | (1,250) | 0.87 |
| Options cancelled | (6,000) | 0.68 |
| Outstanding at end of the period | 2,820,750 | 0.60 |
| Options exercisable at end of the period | 1,344,375 | 0.58 |

The table below provides information on the outstanding stock options as at November 30, 2009:

| Exercise price | Number of outstanding stock options | Number of exercisable stock options | Weighted average residual duration (years) |
|---|---|---|---|
| $ | | | |
| 0.37 | 303,250 | 40,000 | 4.39 |
| 0.40 | 90,000 | 12,500 | 4.02 |
| 0.42 | 50,000 | - | 4.14 |
| 0.45 | 50,000 | 25,000 | 2.01 |
| 0.50 | 1,060,000 | 790,000 | 1.86 |
| 0.60 | 70,000 | 5,000 | 4.34 |
| 0.64 | 50,000 | - | 4.55 |
| 0.72 | 500,000 | 125,000 | 3.03 |
| 0.80 | 150,000 | 112,500 | 2.66 |
| 0.87 | 257,500 | 94,375 | 3.39 |
| 0.95 | 200,000 | 100,000 | 2.38 |
| 1.15 | 40,000 | 40,000 | 4.96 |
| | 2,820,750 | 1,344,375 | 2.75 |

## 5. Share capital, stock-options and warrants (continued)

c) *Warrants*

The situation of the outstanding warrants and the changes that took place during the period ended November 30, 2009 are as follows:

| | Number of warrants | Weighted average exercise price |
|---|---|---|
| | | $ |
| Outstanding at beginning of year | 2,889,509 | 1.03 |
| Warrants exercised (Note 5a)i) | (178,889) | 0.80 |
| Outstanding at end of period | 2,710,620 | 1.05 |
| Warrants exercisable at end of period | 2,710,620 | 1.05 |

The table below provides information on the outstanding warrants as at November 30, 2009:

| Exercise price | Number of outstanding warrants | Number of exercisable warrants | Weighted average residual duration (years) |
|---|---|---|---|
| $ | | | |
| 0.60 | 204,167 | 204,167 | 1.57 |
| 0.80 | 150,890 | 150,890 | 0.35 |
| 1.10 | 2,355,563 | 2,355,563 | 0.35 |
| | 2,710,620 | 2,710,620 | 0.44 |

## 6. Loss per share

The table below presents a reconciliation between the basic net loss and the diluted net loss per share:

| | Three-month period ended November 30, 2009 | Three-month period ended November 30, 2008 |
|---|---|---|
| | $ | $ |
| **Numerator** | | |
| Net loss | (496,343) | (555,349) |
| Amount available for calculating the loss per share | (496,343) | (555,349) |
| **Denominator** | | |
| Number of shares | | |
| Weighted average number of shares outstanding | 40,575,609 | 40,455,853 |
| Dilutive effect of stock options and warrants | - | - |
| Weighted average number of shares outstanding on diluted basis | 40,575,609 | 40,455,853 |
| **Amount per share** | | |
| Net loss per share | | |
| Basic | (0.01) | (0.01) |
| Diluted | (0.01) | (0.01) |

The calculation of dilution effects excludes options and warrants that have an anti-diluting effect.

However, should the Company's basic earnings per share have been positive, some options and warrants, at an exercise price of $0.37, $0.40, $0.42, $0.45, $0.50, $0.60, $0.72 and $0.80, would have been dilutive and would have resulted in the addition of 919,593 shares to the weighted average number of shares outstanding used in the diluted earnings per share calculation for period ended November 30, 2009 (4,935 as at November 30, 2008).

## 7. Additional information on the Statements of Cash Flows

| | Three-month period ended November 30, 2009 | Three-month period ended November 30, 2008 |
|---|---|---|
| | $ | $ |
| *Changes in non-cash operating working capital items* | | |
| Accounts receivable | (353,922) | 14,615 |
| Income tax credits receivable | (41,040) | (49,506) |
| Inventories | (180,004) | (141,852) |
| Prepaid expenses | 5,747 | 39,831 |
| Accounts payable and accrued liabilities | 96,737 | 267,891 |
| | (472,482) | 309,230 |
| *Other information* | | |
| Interests paid | 11,404 | 12,315 |
| Cash | 241,830 | 305,157 |
| Short-term investments | 1,878,365 | 3,121,079 |
| | 2,120,195 | 3,426,236 |

## 8. Commitments

*Lease*

The Company leases offices under an operating lease expiring on January 31, 2014. This agreement is renewable for an additional five-year period. Future rent, without considering the escalation clause, will amount to $493,846.

Opsens Solutions Inc. rents three vehicles under operating lease expiring in November 2010 and October 2013. Future rent payments will amount to $75,096.

Future payments for the leases and other commitments, totalizing $704,942, required in each of the next five years are as follows:

| | $ |
|---|---|
| 2009 | 231,677 |
| 2010 | 173,757 |
| 2011 | 138,257 |
| 2012 | 136,497 |
| 2013 | 24,754 |
| Thereafter | - |

*Licence*

Under an exclusive licence with a third party, the Company is committed to provide exclusive marketing of some of its products for a defined territory.

## 9. Contractual guarantees

During the normal course of business, the Company replaces defective parts under warranties offered at the sale of the products. The term of the warranties is 12 months. During the period ended November 30, 2009, the Company recognized an expense for $1,732 ($ - for the period ended November 30, 2008) for guarantees. A provision for $29,053 ($27,321 as at August 31, 2009) was recorded for guarantees. This provision estimate is based on past experience and is presented in liabilities under "Accounts payable and accrued liabilities". The actual costs that the Company may incur, as well as the moment when the parts should be replaced, can differ from the estimated amount.

## 10. Segmented information

*Sector's information*

The Company's reportable segments are strategic business units managed separately as one is focused on developing, producing, and supplying fiber optic sensors (Opsens Inc.) and the other (Opsens Solutions Inc.) is specialized in the commercialization and the installation of optical and conventional sensors for the oil and gas industry.

Same accounting policies are used for both reportable segments. Operations are carried out in the normal course of operations and are measured at the exchange value.

| | Period ended November 30, 2009 | | | Period ended November 30, 2008 | | |
|---|---|---|---|---|---|---|
| | Opsens inc. | Opsens Solutions Inc. | Total | Opsens inc. | Opsens Solutions Inc. | Total |
| | $ | $ | $ | $ | $ | $ |
| External sales | 878,063 | 192,290 | 1,070,353 | 516,906 | 94,987 | 611,893 |
| Internal sales | 80,268 | - | 80,268 | 20,724 | - | 20,724 |
| Amortization of property, plant and equipment | 36,632 | 5,750 | 42,382 | 33,455 | 2,324 | 35,779 |
| Amortization of intangible assets | 4,357 | 387 | 4,744 | 5,021 | - | 5,021 |
| Financial expenses (income) | (4,571) | 29,418 | 24,847 | (84,399) | 8,044 | (76,355) |
| Net loss | (281,646) | (214,697) | (496,343) | (337,723) | (217,626) | (555,349) |
| Acquisition of property, plant and equipment | 14,592 | 2,718 | 17,310 | 151,223 | 6,872 | 158,095 |
| Acquisition of intangible assets | 4,694 | 5,172 | 9,866 | 5,875 | - | 5,875 |
| Segment assets | 4,832,914 | 1,399,739 | 6,232,653 | 5,667,590 | 950,176 | 6,617,766 |

## 10. Segmented information (continued)

These operating units generate revenue in various geographic segments as follows:

| | Three-month period ended November 30, 2009 | Three-month period ended November 30, 2008 |
|---|---|---|
| | $ | $ |
| Revenue per geographic sector | | |
| Canada | 215,901 | 115,663 |
| United States | 337,962 | 285,810 |
| Japan | 109,350 | 4,075 |
| France | 109,010 | 298 |
| Other | 298,130 | 206,047 |
| | 1,070,353 | 611,893 |

Revenues are attributed to the geographic sector based on the clients' location.

Capital assets, which include property, plant and equipment and intangible assets, are all located in Canada.

During the three month period ended November 30, 2009, revenues from three clients represent individually more than 10% of the total revenues of the Company, i.e. approximately 17.57% (Opsens Inc.'s reportable segment), 13.96% (Opsens Inc.'s reportable segment) and 11.73% (Opsens Inc.'s reportable segment). For the period ended November 30, 2008, revenues from three clients represent individually more than 10% of the total revenues of the Company, i.e. approximately 19.93% (Opsens Inc.'s reportable segment), 17.46% (Opsens Inc.'s reportable segment) and 10.95% (Opsens Inc.'s reportable segment).

## 11. Comparative figures

Certain comparative figures have been reclassified in order to conform to the presentation adopted for the current period.