

Consolidated financial statements

**Opsens Inc.**

August 31, 2010 and 2009

# Opsens Inc.

August 31, 2010 and 2009

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## Auditors' report

To the shareholders of  
Opsens Inc.

We have audited the consolidated balance sheets of Opsens Inc. as at August 31, 2010 and 2009 and the consolidated statements of earnings (loss) and comprehensive earnings (loss), shareholders' equity 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 August 31, 2010 and 2009 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

*Samson Bélair*  
*Deloitte & Touche s.e.n.c.r.l.* <sup>1</sup>

October 20, 2010

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<sup>1</sup> Chartered accountant auditor permit no. 11848

# Opsens Inc.

## Consolidated statements of earnings (loss) and comprehensive earnings (loss) Years ended August 31, 2010 and 2009

	2010	2009
	\$	\$
Revenues		
Sales	5,280,716	3,087,816
Cost of sales	3,172,311	1,999,843
Gross margin	2,108,405	1,087,973
Expenses (revenues)		
Administrative	1,521,224	1,178,659
Marketing	870,157	871,972
Research and development	1,046,921	827,406
Stock option-based compensation (Note 15b)	282,057	229,408
Amortization of property, plant and equipment	178,754	164,460
Amortization of intangible assets	31,866	21,387
Financial income (Note 4)	(40,839)	(34,687)
Gain on disposal (Note 6)	(2,375,107)	-
	1,515,033	3,258,605
Earnings (loss) before income taxes	593,372	(2,170,632)
<b>Net earnings (loss) and comprehensive earnings (loss)</b>	<b>593,372</b>	<b>(2,170,632)</b>
Net earnings (loss) per share (Note 16)		
Basic	0.01	(0.05)
Diluted	0.01	(0.05)

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

Additional information on the statements of earnings (loss) and comprehensive earnings (loss) is presented in Note 24.

# Opsens Inc.

## Consolidated statements of shareholders' equity

Year ended August 31, 2010

2010

	Common shares	Warrants	Stock options	Total	Common shares	Warrants	Stock options	Contributed surplus	Deficit	Total
	(number)	(number)	(number)	(number)	\$	\$	\$	\$	\$	\$
Balance as at August 31, 2009	43,398,344	2,889,509	2,788,000	<b>49,075,853</b>	12,035,259	856,077	783,936	595,047	(8,728,706)	<b>5,541,613</b>
Share and warrant issuance – Private placement	4,287,500	2,143,750	-	<b>6,431,250</b>	2,958,375	686,000	-	-	-	<b>3,644,375</b>
Warrant issuance to brokers – Issuance expenses – Private placement	-	299,299	-	<b>299,299</b>	-	116,727	-	-	-	<b>116,727</b>
Share issuance – Warrants exercised	178,889	(178,889)	-	-	206,580	(63,469)	-	-	-	<b>143,111</b>
Warrants cancelled	-	(2,506,453)	-	<b>(2,506,453)</b>	-	(733,553)	-	733,553	-	-
Share issuance – Stock options exercised	1,250	-	(1,250)	-	1,404	-	(316)	-	-	<b>1,088</b>
Options granted	-	-	1,359,750	<b>1,359,750</b>	-	-	-	-	-	-
Options cancelled	-	-	(6,000)	<b>(6,000)</b>	-	-	-	-	-	-
Issuance expenses on equity components	-	-	-	-	-	-	-	-	(462,408)	<b>(462,408)</b>
Stock-based compensation	-	-	-	-	-	-	282,057	-	-	<b>282,057</b>
Net earnings	-	-	-	-	-	-	-	-	593,372	<b>593,372</b>
Balance as at August 31, 2010	47,865,983	2,647,216	4,140,500	<b>54,653,699</b>	15,201,618	861,782	1,065,677	1,328,600	(8,597,742)	<b>9,859,935</b>

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

# Opsens Inc.

## Consolidated statements of shareholders' equity

Year ended August 31, 2009

	2009									
	Common shares	Warrants	Stock options	Total	Common shares	Stock options	Warrants	Contributed surplus	Deficit	Total
	(number)	(number)	(number)	(number)	\$	\$	\$	\$	\$	\$
Balance as at August 31, 2008	40,431,677	8,104,453	2,242,500	<b>50,778,630</b>	10,257,259	554,528	1,400,069	-	(6,382,486)	<b>5,829,370</b>
Share issuance and warrant – Private placement	2,916,667	204,167	-	<b>3,120,834</b>	1,750,000	-	59,055	-	-	<b>1,809,055</b>
Share issuance – Warrants exercised	50,000	(50,000)	-	-	28,000	-	(8,000)	-	-	<b>20,000</b>
Issuance expenses on equity components	-	-	-	-	-	-	-	-	(175,588)	<b>(175,588)</b>
Warrants expired (Note 15c)	-	(5,369,111)	-	<b>(5,369,111)</b>	-	-	(595,047)	595,047	-	-
Options granted	-	-	705,500	<b>705,500</b>	-	-	-	-	-	-
Options cancelled	-	-	(160,000)	<b>(160,000)</b>	-	-	-	-	-	-
Stock-based compensation	-	-	-	-	-	229,408	-	-	-	<b>229,408</b>
Net loss	-	-	-	-	-	-	-	-	(2,170,632)	<b>(2,170,632)</b>
Balance as at August 31, 2009	43,398,344	2,889,509	2,788,000	<b>49,075,853</b>	12,035,259	783,936	856,077	595,047	(8,728,706)	<b>5,541,613</b>

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

# Opsens Inc.

## Consolidated balance sheets

August 31, 2010 and 2009

	2010	2009
	\$	\$
<b>Assets</b>		
Current		
Cash and cash equivalents (Note 17)	5,347,801	2,887,085
Accounts receivable (Note 7)	2,055,923	573,310
Income tax credits receivable (Note 22)	152,080	214,624
Work in progress	40,000	-
Inventories (Note 8)	1,428,439	1,125,260
Prepaid expenses	144,338	80,198
Balance of purchase price to be received – short term	428,024	-
	<b>9,596,605</b>	4,880,477
Balance of purchase price to be received – long term (Note 11)	398,013	-
Property, plant and equipment (Note 9)	670,059	723,424
Intangible assets (Note 10)	175,176	169,799
Goodwill	676,574	676,574
	<b>11,516,427</b>	6,450,274
<b>Liabilities</b>		
Current		
Accounts payable and accrued liabilities (Note 13)	1,402,249	518,782
Current portion of long-term debt (Note 14)	125,001	133,440
	<b>1,527,250</b>	652,222
Long-term debt (Note 14)	129,242	256,439
	<b>1,656,492</b>	908,661
<b>Shareholders' equity</b>		
Share capital (Note 15a)	15,201,618	12,035,259
Stock options (Note 15b)	1,065,677	783,936
Warrants (Note 15c)	861,782	856,077
Contributed surplus	1,328,600	595,047
Deficit	(8,597,742)	(8,728,706)
	<b>9,859,935</b>	5,541,613
	<b>11,516,427</b>	6,450,274

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

References:

Commitments (Note 18)  
Contractual guarantees (Note 19)

Approved by the board

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*Signed [Gordon Zive]* director

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*Signed [Pierre Carrier]* director

# Opsens Inc.

## Consolidated statements of cash flows Years ended August 31, 2010 and 2009

	2010	2009
	\$	\$
<b>Operating activities</b>		
Net earnings (loss)	593,372	(2,170,632)
Adjustments for:		
Amortization of property, plant and equipment	178,754	164,460
Amortization of intangible assets	31,866	21,387
Premium payable to Canada Economic Development	-	24,353
Premium payable to Investissement Québec	-	8,520
Stock option-based compensation	282,057	229,408
Gain on disposal	(2,375,107)	
Implicit interest on balance of purchase price to be received	(5,821)	
Changes in non-cash operating working capital items (Note 17)	(1,579,750)	(302,637)
	<b>(2,874,629)</b>	<b>(2,025,141)</b>
<b>Investing activities</b>		
Acquisition of property, plant and equipment	(125,389)	(333,704)
Acquisition of intangible assets	(37,243)	(31,418)
Assets disposal	2,190,720	-
	<b>2,028,088</b>	<b>(365,122)</b>
<b>Financing activities</b>		
Increase in long-term debt	19,260	84,295
Reimbursement of long-term debt	(154,896)	(202,934)
Issuance of equity components	3,788,574	1,770,000
Issuance of equity component expenses	(345,681)	(116,533)
	<b>3,307,257</b>	<b>1,534,828</b>
Increase (decrease) in cash and cash equivalents	2,460,716	(855,435)
Cash and cash equivalents at beginning	2,887,085	3,742,520
Cash and cash equivalents at end	<b>5,347,801</b>	<b>2,887,085</b>

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

Additional information on consolidated statements of cash flows is presented in Note 17.

# Opsens Inc.

## Notes to the consolidated financial statements

August 31, 2010 and 2009

### 1. Description of business

The Company is incorporated under part IA of the *Québec Companies Act*. The Company specializes in developing and manufacturing technical and scientific instruments.

### 2. 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"):

Section 3064, "Goodwill and intangible assets," replacing Section 3062, "Goodwill and other intangible assets" and Section 3450, "Research and development costs." 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 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 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," establishes 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.

# Opsens Inc.

## Notes to the consolidated financial statements

August 31, 2010 and 2009

### 2. Changes in accounting policies (continued)

*Changes applied for the exercise ended August 31, 2009 (continued)*

#### *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.

#### *Future accounting changes*

- 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 ("AcSB") 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 January 1, 2011. On February 13, 2008, the AcSB confirmed 2011 as the official changeover date from current Canadian generally accepted accounting principles ("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 commercial activities, its financial information systems and its consolidated financial statements.

# Opsens Inc.

## Notes to the consolidated financial statements

August 31, 2010 and 2009

### 3. Accounting policies

The financial statements have been prepared in accordance with Canadian GAAP and include the following policies:

#### *Principles of consolidation*

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

#### *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.

#### *Property, plant and equipment*

Property, plant and equipment and intangible assets with finite lives are recorded at their acquisition cost. Amortization is provided using the declining balance method based on their useful lives, except for patents, which are amortized using the straight-line method, at the following annual rates:

#### *Property, plant and equipment and intangible assets*

Office furniture and equipment	20%
Production equipment	20%
Automotive equipment	30%
Research and development equipment	20%
Research and development computer equipment	30%
Computer equipment	30%
Leasehold improvements	Lease term

#### *Intangible assets with limited lives*

Patents	Term of underlying patent, 5 to 20 years
Software	30%

#### *Intangible assets with indefinite lives*

Intangible assets with indefinite lives are recorded at cost and are tested for impairment annually or more frequently if events or changes in circumstances indicate a potential impairment in value. The excess of the carrying value over the fair value is recorded in loss.

# Opsens Inc.

## Notes to the consolidated financial statements

August 31, 2010 and 2009

### 3. Accounting policies (continued)

#### *Impairment of long-lived assets*

Long-lived assets held are reviewed annually or more frequently when events or changes in circumstances cause its carrying value to exceed the total undiscounted cash flows expected from its use and eventual disposition. The impairment loss is calculated by deducting the fair value of the asset from its carrying value.

#### *Government assistance and income tax credits for research and development*

Government grants are recorded when there is reasonable assurance that the Company has complied with and will continue to comply with all the conditions of the grant. Non-repayable grants or contributions related to operating expenses are included in the statement of loss when the related expenses are incurred. Grants related to capital expenditures are netted against the related assets when acquired.

The Company is also eligible for income tax credits for scientific research and experimental development ("SR&ED") awarded by the federal and provincial governments. The portion of SR&ED credits immediately receivable is accounted for in the year during which the related costs or capital expenses are incurred. The portion of SR&ED credits not immediately receivable is accounted for in the year during which these costs or expenses are incurred, provided the Company has reasonable assurance that these credits will be recovered.

Income tax credits are applied against expenses or related assets. Recorded income tax credits are based on management's estimates of amounts expected to be recovered and are subject to an audit by the taxation authorities.

#### *Earnings (loss) per share*

Earnings (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 earnings (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 the corresponding shareholder's equity account. When stock options or warrants are exercised, the corresponding account and the proceeds received by the Company are credited to share capital.

# Opsens Inc.

## Notes to the consolidated financial statements

August 31, 2010 and 2009

### 3. Accounting policies (continued)

#### *Income taxes*

The Company accounts for income taxes using the tax liability method. Under this method, future income tax assets and liabilities are recognized for deductible or taxable temporary differences between the carrying value and the tax value of the assets and liabilities based on the enacted or substantially enacted tax rates expected to apply to the year in which the differences are expected to reverse.

The Company establishes a valuation allowance against future income tax assets if, based on available information, it is more likely than not that some or all the future income tax assets will not be realized.

#### *Foreign currency translation*

Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate prevailing at the balance sheet date while non-monetary items are translated at the historical rate. Revenues and expenses denominated in foreign currencies are recorded at the average rate of exchange prevailing during the period, except for depreciation and amortization, which is translated at the historical rate. Foreign exchange gains or losses are included in expenses for the year.

#### *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.

#### *Revenue recognition and work in progress*

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 of 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 worked but not yet invoiced and the payments received. Losses are recorded as soon as they become apparent.

# Opsens Inc.

## Notes to the consolidated financial statements

August 31, 2010 and 2009

### 3. Accounting policies (continued)

#### *Financial instruments*

Cash and cash equivalents 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 and income tax credits receivable are classified as loans and receivables. They are recorded at cost, which at initial recognition corresponds to fair value. Subsequent revaluations of accounts receivable are recorded at amortized cost, which generally corresponds to the initially recognized amount less any allowance for doubtful accounts.

The Company has chosen to classify its financial liabilities (accounts payable, accrued liabilities, and long term debt) as other liabilities. Financial liabilities are initially measured at cost, and subsequent revaluations are recorded at amortized cost using the effective interest rate method.

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.

#### *Use of estimates*

The presentation of financial statements in accordance with Canadian GAAP 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 credits 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.

### 4. 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.

# Opsens Inc.

## Notes to the consolidated financial statements

August 31, 2010 and 2009

### 4. Financial instruments (continued)

#### *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 August 31, 2010, the Company was holding more than 81.4% (85.4% as August 31, 2009) of its cash equivalents in all time redeemable term-deposit.

#### *Financial charges (income)*

	2010	2009
	\$	\$
Interest and bank charges	<b>20,033</b>	25,599
Interest on long-term debt	<b>23,457</b>	42,684
Gain on foreign currency translation	<b>(14,200)</b>	(20,524)
Interest income	<b>(70,129)</b>	(82,446)
	<b>(40,839)</b>	(34,687)

#### *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 August 31, 2010, the Company was holding more than 81.4% (85.4% as at August 31, 2009) of its cash equivalents portfolio in all time redeemable term-deposit with the same financial institution.

#### *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. One major customer represents 66.13% of the Company's accounts receivable as at August 31, 2010 (50.73% as at August 31, 2009).

As at August 31, 2010, 23.79% (23.66% as at August 31, 2009) of the accounts receivable were of more than 90 days whereas 61.48% (33.49% as at August 31, 2009) of those were with less than 30 days. The maximum exposure to the risk of credit for receivable corresponded to their book value. On August 31, 2010, the bad debt provision was established at \$6,110 (\$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 of default.

# Opsens Inc.

## Notes to the consolidated financial statements

August 31, 2010 and 2009

#### 4. Financial instruments (continued)

##### *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 August 31, 2010 had been the same throughout the period, a hypothetical 1% interest rate increase would have had an unfavourable impact of \$1,029 on the net profit for the year ended August 31, 2010 and \$1,975 on the net loss for the year ended August 31, 2009. The net profit (loss in 2009) 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 and 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 years ended August 31, 2010 and 2009, if the Canadian dollar had strengthened 10% against the US dollar with all other variables held constant, after-tax net income would have been \$142,000 lower (net loss would have been \$138,000 higher in 2009). Conversely, if the Canadian dollar had weakened 10% against the US dollar with all other variables held constant, after-tax net income would have been \$142,000 higher (net loss would have been \$138,000 lower in 2009) for the same periods.

As at August 31, 2010, the risk to which the Company was exposed is established as follows:

	2010	2009
	\$	\$
Cash (US\$467,612)	509,164	78,752
Accounts receivable (US\$468,010)	501,350	471,847
Balance of purchase price to be received (US\$786,250)	826,037	-
Accounts payable and accrued liabilities (US\$87,587)	(93,826)	(30,545)
<b>Total</b>	<b>1,742,725</b>	<b>520,054</b>

##### *Fair value*

The fair value of cash and cash equivalents, accounts receivable, income tax credits receivable, balance of purchase price receivable and accounts payable and accrued liabilities approximates 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.

# Opsens Inc.

## Notes to the consolidated financial statements

August 31, 2010 and 2009

### 4. Financial instruments (continued)

#### *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.

The following are the contractual maturities of the financial liabilities, principal and interest (assuming current interest rates), as at August 31, 2010:

	Total	0 to 12 months	1 year to 2 years	2 years to 5 years	More than 5 years
	\$	\$	\$	\$	\$
Accounts payable and accrued liabilities	1,402,249	1,402,249	-	-	-
Long-term debt	263,252	136,620	80,035	46,597	-
Obligation under capital lease	54,933	22,838	15,345	16,750	-
Commitments	649,604	276,091	157,886	215,627	-
<b>Total</b>	<b>2,370,038</b>	<b>1,837,798</b>	<b>253,266</b>	<b>278,974</b>	<b>-</b>

### 5. 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 GAAP. 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.

	2010	2009
	\$	\$
<b>Net earnings (loss)</b>	<b>593,372</b>	<b>(2,170,632)</b>
Financial income	<b>(40,839)</b>	<b>(34,687)</b>
Amortization of property, plant and equipment	<b>178,754</b>	164,460
Amortization of intangible assets	<b>31,866</b>	21,387
Stock option-based compensation	<b>282,057</b>	229,408
<b>EBITDAO</b>	<b>1,045,210</b>	<b>(1,790,064)</b>

# Opsens Inc.

## Notes to the consolidated financial statements

August 31, 2010 and 2009

### 5. Capital management (continued)

The Company targets to improve these ratios which positively vary for the year ended August 31, 2010 compare to the same period in 2009. 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 which is described at Note 12.

### 6. Gain on disposal

On August 16, 2010, Opsens reached agreement to license through an Intellectual Property and Assignment Agreement ("The Agreement") its technology in the high-power transformers business to a subsidiary of LumaSense Technologies Inc., of Santa Clara, California (United States).

The Agreement gives LumaSense exclusive rights to use Opsens' technology in the transformer business. LumaSense will have also have access to Opsens' existing distribution channels for its transformer business. LumaSense has paid Opsens US\$2.1 million in cash upon closing and will pay a further US\$500,000 in one year and US\$500,000 two years after closing.

The Agreement was recorded as a disposal. Gain on disposal calculation had been calculated as following:

	Amount
	\$
<b>Proceeds</b>	
Cash received at closing	2,190,720
Balance of purchase price to be received as of August 16, 2011 (nominal value of US\$500,000)	443,360
Balance of purchase price to be received as of August 16, 2012 (nominal value of US\$500,000)	376,856
	<u>3,010,936</u>
<b>Disposal fees</b>	
Inventory and purchases credit	150,000
Other expenses and accrued expenses	265,829
Deferred revenues – manufacturing agreement*	220,000
	<u>635,829</u>
<b>Gain on disposal</b>	<u>2,375,107</u>

\* Opsens engaged in a manufacturing agreement with terms and conditions that are beneficial to LumaSense.

# Opsens Inc.

## Notes to the consolidated financial statements

August 31, 2010 and 2009

### 7. Accounts receivable

	2010	2009
	\$	\$
Trade	1,938,099	511,678
Allowance for doubtful accounts	(6,110)	(14,678)
Taxes receivable	28,901	50,415
Contributions receivable	95,033	25,895
	<b>2,055,923</b>	<b>573,310</b>

### 8. Inventories

	2010	2009
	\$	\$
Raw materials	669,149	636,084
Finished goods	759,290	489,176
	<b>1,428,439</b>	<b>1,125,260</b>

### 9. Property, plant and equipment

	2010		
	Cost	Accumulated amortization	Net book value
	\$	\$	\$
Office furniture and equipment	85,114	41,971	43,143
Leased office furniture and equipment	8,326	6,365	1,961
Production equipment	173,383	51,864	121,519
Leased automotive equipment	59,028	25,382	33,646
Research and development equipment, net of income tax credits of \$23,834	761,751	399,671	362,080
Research and development computer equipment, net of income tax credits of \$3,078	27,122	21,176	5,946
Computer equipment	138,836	70,213	68,623
Leased computer equipment	29,009	14,796	14,213
Leasehold improvements	39,908	20,980	18,928
	<b>1,322,477</b>	<b>652,418</b>	<b>670,059</b>

# Opsens Inc.

## Notes to the consolidated financial statements

August 31, 2010 and 2009

### 9. Property, plant and equipment (continued)

	2009		
	Cost	Accumulated amortization	Net book value
	\$	\$	\$
Office furniture and equipment	74,483	32,283	42,200
Leased office furniture and equipment	8,326	5,875	2,451
Production equipment	113,514	37,366	76,148
Leased automotive equipment	59,028	10,963	48,065
Research and development equipment, net of income tax credits of \$23,834	734,428	300,469	433,959
Research and development computer equipment, net of income tax credits of \$3,078	27,122	18,617	8,505
Computer equipment	111,269	44,466	66,803
Leased computer equipment	29,009	8,703	20,306
Leasehold improvements	39,908	14,921	24,987
	<b>1,197,087</b>	<b>473,663</b>	<b>723,424</b>

### 10. Intangible assets

	2010		
	Cost	Accumulated amortization	Net book value
	\$	\$	\$
Indefinite lives			
Trademarks	200	-	200
Limited lives			
Patents	223,485	60,921	162,564
Softwares, net of income tax credits of \$1,518	46,751	34,339	12,412
	<b>270,436</b>	<b>95,260</b>	<b>175,176</b>

	2009		
	Cost	Accumulated amortization	Net book value
	\$	\$	\$
Indefinite lives			
Trademarks	200	-	200
Limited lives			
Patents	203,454	46,414	157,040
Softwares, net of income tax credits of \$1,518	41,578	29,019	12,559
	<b>245,232</b>	<b>75,433</b>	<b>169,799</b>

# Opsens Inc.

## Notes to the consolidated financial statements

August 31, 2010 and 2009

### 11. Balance of purchase price to be received

	2010	2009
	\$	\$
Balance of purchase price to be received of US\$1,000,000 payable in two amounts of US\$500,000 at the end of each next two years following agreement signature, actualized at an implicit annual rate of 15%	820,216	-
Imputed interests (at 15% rate)	5,821	-
	<b>826,037</b>	-
Balance receivable – short term	428,024	-
Balance receivable – long term	398,013	-

### 12. Authorized line of credit

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. This line of credit bears interest at the financial institution's prime rate plus 2% and is repayable on a weekly basis by \$5,000 tranches. It is secured by a first-rank movable hypothec for an amount of \$750,000 on the universality of receivables and inventories. Under the terms and conditions of the credit agreement, the Company is subject to certain covenants with respect to maintaining minimum financial ratios (see Note 5). The Company respects these financial ratios as at August 31, 2010, but the credit line was not used at the end of the period.

The Company also has credit cards for a maximum amount of \$50,000 to finance its current operations. The balance used on these credit cards bears interest at the financial institution's prime rate plus 4%.

### 13. Accounts payable and accrued liabilities

	2010	2009
	\$	\$
Suppliers	734,560	491,461
Provision for warranty (Note 19)	31,860	27,321
Disposal fees payables (Note 6)	635,829	-
	<b>1,402,249</b>	518,782

# Opsens Inc.

## Notes to the consolidated financial statements

August 31, 2010 and 2009

### 14. Long-term debt

	2010	2009
	\$	\$
Contributions repayable to Canada Economic Development, without interest, repayable in five equal and consecutive annual instalments effective of \$39,567 and \$20,000, maturing in February 2012 and June 2013		
Debt balance	<b>139,129</b>	198,696
Imputed interest	<b>(23,448)</b>	(42,707)
	<b>115,681</b>	155,989
BDC loan, of an authorized amount of \$285,000, bearing interest at the Bank's prime rate plus 2.5%, repayable in monthly principal instalments of \$3,690 and a final payment of \$870 in January 2012, secured by a first-rank movable hypothec in the amount of \$285,000 on the universality of the Company's present and future, tangible and intangible property, subordinated only with respect to trade accounts receivable and inventories provided as security for the operating loans or operating lines of credits, and for which the BDC granted a subordinate clause in favour of Investissement Québec for an amount of \$255,750 on the intellectual property, and by joint and several suretyship of certain shareholders for an amount equal to 25% of the outstanding commitment	<b>59,910</b>	104,190
Canada Small Business Financing Act loan, for an authorized amount of \$119,340, bearing interest at the financial institution's prime rate plus 2.75% annually, repayable in monthly principal instalments of \$1,423 until December 2011, secured by a first-rank movable hypothec in the amount of \$119,340 on specific property	<b>31,749</b>	55,561
Capital lease, bearing interest at 13.5%, payable in monthly instalments of \$1,367, including interest and a final payment of \$1,417, maturing in December 2010	<b>4,513</b>	19,211
Capital lease, bearing interest at 10.6%, payable in monthly instalments of \$98, including interest and a final payment of \$486 maturing in March 2011	<b>1,043</b>	2,054
Amounts carried forward	<b>212,896</b>	337,005

# Opsens Inc.

## Notes to the consolidated financial statements

August 31, 2010 and 2009

### 14. Long-term debt (continued)

	2010	2009
	\$	\$
Amounts carried forward	<b>212,896</b>	337,005
Capital lease, bearing interest at 13.5%, payable in monthly instalments of \$140, including interest and a final payment of \$740 maturing in August 2012	<b>3,575</b>	4,689
Capital lease, bearing interest at 9.7%, payable in monthly instalments of \$837, including interest and a final payment of \$837 maturing in April 2014	<b>30,925</b>	37,632
Capital lease, bearing interest at 13.5%, payable in monthly instalments of \$375, including interest and a final payment of \$1,650 maturing in August 2012	<b>6,847</b>	10,553
	<b>254,243</b>	389,879
Current portion	<b>125,001</b>	133,440
	<b>129,242</b>	256,439

Principal payments required over the next five years are as follows:

	Obligations – Capital lease			Other	Debt and principal portion of capital lease
	Total payments	Imputed interest	Principal payments	debts	
	\$	\$	\$	\$	\$
2011	22,838	3,678	19,160	105,841	125,001
2012	15,345	2,209	13,136	62,314	75,450
2013	10,047	1,099	8,948	38,557	47,505
2014	6,703	236	6,467	-	6,467

Under the terms and conditions of the agreement on long-term debt with its financial institution, the Company is subject to certain covenants with respect to maintaining minimum financial ratios (see Note 5).

# Opsens Inc.

## Notes to the consolidated financial statements

August 31, 2010 and 2009

### 15. Share capital, stock options and warrants

#### a) Share capital

Authorized, unlimited number

Common shares, voting and participating without par value

Year ended August 31, 2010

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 15a)i)	178,889	206,580
Share issuance – Stock options exercised (Note 15a)ii)	1,250	1,404
Share issuance – Private placement (Note 15a)iii)	4,287,500	2,958,375
Balance as at August 31, 2010	47,865,983	15,201,618

#### i) Warrants exercised

During the year ended August 31, 2010, 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 year ended August 31, 2010, 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.

#### iii) Private placement

On February 12, 2010, the Company realized a private placement of 4,287,500 units at a price of \$0.85 per unit for gross proceeds of \$3,644,375. Each unit is comprised of one common share and one-half common share purchase warrant of the Company. Each warrant will entitle the holder to purchase one common share of the Company at a price of \$1.15 for a period of 24 months following the closing of the offering. Opsens paid to the agents a cash commission equal to \$254,404 and issue broker compensation warrants entitling the agents to purchase 299,299 common shares of Opsens. The broker warrants shall be issuable at an exercise price per common share equal to the offering price for a period of 24 months from the closing of the offering.

# Opsens Inc.

## Notes to the consolidated financial statements

August 31, 2010 and 2009

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

#### a) Share capital (continued)

Year ended August 31, 2009

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

*Issued and fully paid*

	Number	Amount
		\$
Balance at beginning of year	40,431,677	10,257,259
Share issuance – warrants exercised (Note 15a)iv))	50,000	28,000
Share issuance – Private placement (Note 15a)v))	2,916,667	1,750,000
<b>Balance as at August 31, 2009</b>	<b>43,398,344</b>	<b>12,035,259</b>

#### iv) Warrants exercised

During the year ended August 31, 2009, 50,000 warrants entitling their holders to acquire one common share of the Company at an average price of \$0.40 per share were exercised for a total amount of \$20,000. The book value of the exercised warrants was transferred to share capital for an amount of \$8,000.

#### v) Private placement

On June 25, 2009, the Company realized a private placement of 2,916,667 shares at a price of \$0.60 per unit for gross proceeds of \$1,750,000. Opsens paid to the agents a cash commission equal to \$87,500 and issue, at the closing of the offering, non-transferable broker compensation warrants entitling the agents to purchase 204,167 common shares of Opsens. The broker warrants shall be issuable at an exercise price of \$0.60 for a period of 24 months from the closing of the offering.

#### b) Stock options

The Company changed the stock option plan on January 19, 2010. 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 1,000,000 outstanding options granted which are completely vested at grant.

The compensation expense in regards to the stock option plan for the year ended August 31, 2010 is \$282,057 (\$229,408 for the year ended August 31, 2009).

# Opsens Inc.

## Notes to the consolidated financial statements

August 31, 2010 and 2009

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

#### b) Stock options (continued)

The fair value of these options was determined using the Black-Scholes option pricing model with the following assumptions:

Risk-free interest rate	Between 1.79% and 2.29%
Expected volatility	Between 82% and 88%
Expected dividend yield on shares	-%
Duration	5 years
Fair value per option at the grant date	Between \$0.24 and \$0.79

The Black-Scholes options valuation model was developed to estimate the fair value of traded options, which have no vesting restrictions and are fully transferable, a practice which differs significantly from the Company's stock option awards. In addition, option valuation models require the input of highly-subjective assumptions including the expected stock price volatility. Any changes in the subjective input assumptions can affect the fair value estimate.

The situation of the outstanding stock option plan and the changes that took place during the years ended August 31, 2010 and 2009 are as follows:

	2010		2009	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
		\$		\$
Outstanding at beginning of year	2,788,000	0.61	2,242,500	0.65
Options granted	1,359,750	0.40	705,500	0.40
Options cancelled	(6,000)	0.68	(160,000)	0.52
Options exercised	(1,250)	0.87	-	-
Outstanding at end of the year	4,140,500	0.54	2,788,000	0.61
Options exercisable at end of the year	2,047,063	0.59	1,228,125	0.61

# Opsens Inc.

## Notes to the consolidated financial statements

August 31, 2010 and 2009

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

#### b) Stock options (continued)

The table below provides information on the outstanding stock options as at August 31, 2010:

Exercise price	Number of outstanding stock options	Number of exercisable stock options	Weighted average residual duration (years)
\$			
0.36	219,750	80,000	4.85
0.37	303,250	75,813	3.64
0.38	1,100,000	300,000	5.00
0.40	90,000	22,500	3.27
0.42	50,000	12,500	3.39
0.45	50,000	37,500	1.26
0.50	1,060,000	790,000	1.11
0.60	70,000	22,500	3.59
0.64	50,000	12,500	3.79
0.72	500,000	250,000	2.28
0.80	150,000	125,000	1.91
0.87	257,500	128,750	2.64
0.95	200,000	150,000	1.62
1.15	40,000	40,000	4.21
	4,140,500	2,047,063	2.70

#### c) Warrants

The fair value of the warrants was determined using the Black-Scholes option pricing model with the following assumptions:

	Units issued	Broker compensation warrant
Exercisable price	\$1.15	\$0.85
Risk-free interest rates	1.14%	1.14%
Expected volatility	86%	86%
Expected dividend yield on shares	-%	-%
Duration	2 years	2 years
Fair value by warrant	\$0.32	\$0.39

# Opsens Inc.

## Notes to the consolidated financial statements

August 31, 2010 and 2009

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

#### c) Warrants (continued)

The situation of the outstanding warrants and the changes that took place during the years ended August 31, 2010 and 2009 are as follows:

	2010		2009	
	Number of warrants	Weighted average exercise price \$	Number of warrants	Weighted average exercise price \$
Outstanding at beginning of year	2,889,509	1.03	8,104,453	0.74
Warrants issued, private placement (Note 15 a)iii))	2,443,049	1.11	204,167	0.60
Warrants cancelled	(2,506,453)	1.08	(5,369,111)	0.56
Warrants exercised during the year (Note 15 a)i))	(178,889)	0.80	(50,000)	0.40
Outstanding at end of year	2,647,216	1.07	2,889,509	1.03
Warrants exercisable at end of year	2,647,216	1.07	2,889,509	1.03

The table below provides information on the outstanding warrants as at August 31, 2010:

Exercise price \$	Number of outstanding warrants	Number of exercisable warrants	Weighted average residual duration (years)
0.60	204,167	204,167	0.82
0.85	299,299	299,299	1.45
1.15	2,143,750	2,143,750	1.45
	2,647,216	2,647,216	1.40

#### i) Warrants expired

During the year ended August 31, 2010, 150,890 and 2,355,563 warrants entitling its holder to acquire one common share of the Company at a price of \$0.80 and \$1.10 per share respectively expired.

# Opsens Inc.

## Notes to the consolidated financial statements

August 31, 2010 and 2009

### 16. Earnings (loss) per share

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

	2010	2009
	\$	\$
<b>Numerator</b>		
Net earnings (loss)	593,372	(2,170,632)
Amount available for calculating the earnings (loss) per share	593,372	(2,170,632)
<b>Denominator</b>		
Number of shares		
Weighted average number of shares outstanding	47,865,983	41,010,627
Dilutive effect of stock options and warrants	2,924	-
Weighted average number of shares outstanding on diluted basis	47,868,907	41,010,627
<b>Amount per share</b>		
Net earnings (loss) per share		
Basic	0.01	(0.05)
Diluted	0.01	(0.05)

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 for the first three quarters, some options and warrants, at an exercise price of \$0.37, \$0.40, \$0.42, \$0.45, \$0.50, \$0.60, \$0.64, \$0.72, \$0.80, \$0.85 and \$0.87 would have been dilutive and would have resulted in the addition of 602,246 shares to the weighted average number of shares outstanding used in the diluted earnings per share calculation for year ended August 31, 2010 (106,072 in 2009).

# Opsens Inc.

## Notes to the consolidated financial statements

August 31, 2010 and 2009

### 17. Additional information on the statements of cash flows

	2010	2009
	\$	\$
<i>Changes in non-cash operating working capital items</i>		
Accounts receivable	<b>(1,482,613)</b>	170,641
Income tax credits receivable	<b>62,544</b>	(30,674)
Inventories	<b>(303,179)</b>	(671,989)
Work in progress	<b>(40,000)</b>	237,551
Prepaid expenses	<b>(64,140)</b>	20,256
<u>Accounts payable and accrued liabilities</u>	<u><b>247,638</b></u>	<u>(28,422)</u>
	<b>(1,579,750)</b>	(302,637)

#### *Cash and cash equivalents*

Cash	<b>997,072</b>	422,168
<u>Short-term investments</u>	<u><b>4,350,729</b></u>	<u>2,464,917</u>
	<b>5,347,801</b>	2,887,085

#### *Other information*

<u>Interests paid</u>	<u><b>26,008</b></u>	<u>49,456</u>
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#### *Non-cash transactions*

On February 12, 2010, Opsens issued broker compensation warrants entitling the agents to purchase 299,299 common shares of Opsens at an exercise price of \$0.85 per share for a book value of \$116,727.

On June 25, 2009, Opsens issued broker compensation warrants entitling the agents to purchase 204,167 common shares of Opsens at an exercise price of \$0.60 per share for a book value of \$59,055.

There is also a licence disposal balance of purchase price to be received of \$820,216 and disposal fees payables of \$635,828 which they have no impact on cash flows (Note 6).

# Opsens Inc.

## Notes to the consolidated financial statements

August 31, 2010 and 2009

### 18. Commitments

#### *Lease*

The Company leases offices in Québec 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 \$404,954.

Opsens Solutions Inc. rents four vehicles under an operating lease expiring in November 2010, October 2013 and May 2014. Future rent payments will amount to \$97,550.

Future payments for the leases and other commitments, totaling \$649,604, required in each of the next five years are as follows:

	\$
2011	276,091
2012	157,886
2013	149,386
2014	66,241
2015	-

#### *Licence*

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

### 19. 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 year ended August 31, 2010, the Company recognized an expense of \$4,539 (\$7,321 for the year ended August 31, 2009) for guarantees. A provision for \$31,860 (\$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.

### 20. Government assistance

#### *Industrial Research Assistance Programme ("IRAP")*

Under an agreement reached with the National Research Council with respect to the IRAP, the Company may receive non-refundable contributions for a maximum amount of \$498,500 to cover some of its incurred costs to carry out a development project of medical devices sensors. For the year ended August 31, 2010, the Company recorded contributions totalling \$345,698 (\$22,116 for the year ended August 31, 2009) which were accounted against research and development fees.

# Opsens Inc.

## Notes to the consolidated financial statements

August 31, 2010 and 2009

### 20. Government assistance (continued)

During the year ended August 31, 2010, the Company received a cash contribution for training of \$3,000 from Emploi Québec. This amount was recorded against research and development expenses.

Under agreements reached with the ministère du Développement économique, de l'Innovation et de l'Exportation, the Company received non-refundable contributions to cover some of its incurred costs for market research, hiring of an employee and product conception. During the year ended August 31, 2009, the Company received a cash contribution of \$45,640 which was recorded against research and development, marketing and administrative expenses.

During the year ended August 31, 2009, the Company received a cash contribution for training of \$4,856 from Emploi Québec. This amount was recorded against research and development expenses.

### 21. Income taxes

The effective income tax rate of the Company differs from the rate that would have been calculated using the combined statutory tax rate (federal and provincial). The difference is generated as follows:

	2010	2009
	\$	\$
Income tax payable using the combined federal and provincial statutory tax rate	194,134	(657,312)
Non-deductible expenses	268,255	478,946
Asset disposal	(313,494)	-
Deductible financing fees	(86,894)	(102,007)
Non-taxable income tax credits	(69,018)	(77,450)
Losses used	7,017	357,823
Income tax using effective income tax rate	-	-

As at August 31, 2010, the Company has tax losses of approximately \$4,441,400 for federal purposes and \$4,418,400 for provincial purposes that can be used to reduce future taxable income. These losses expire as follows:

	Federal	Provincial
	\$	\$
2023	483,000	463,000
2024	42,000	40,000
2025	400	400
2027	1,524,000	1,509,000
2028	691,000	692,000
2029	1,201,000	1,214,000
2030	500,000	500,000
	4,441,400	4,418,400

# Opsens Inc.

## Notes to the consolidated financial statements

August 31, 2010 and 2009

### 21. Income taxes (continued)

The Company also has undeducted research and development expenses in the amount of \$2,925,000 for federal purposes and \$4,125,000 for provincial purposes that are deferred over an undetermined period.

Future income tax assets related to tax losses, undeducted research and development expenses, and the difference between the undepreciated capital cost for tax purposes and the net book value of property, plant and equipment will be recorded in the financial statements once the Company concludes that these losses and tax benefits will likely be realized.

### 22. Income tax credits for scientific research and experimental development

For tax purposes, research and development expenses are detailed as follows:

	2010	2009
	\$	\$
Federal	1,065,717	946,387
Provincial	1,069,462	933,061

These expenses have enabled the Company to become eligible for scientific research and experimental development tax credits reimbursable for the following amounts:

	2010	2009
	\$	\$
Federal	-	-
Provincial	152,080	214,624
	152,080	214,624

These credits were recorded in  
research and development expenses  
in the statements of loss

	152,080	214,624
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These credits were recorded  
against the related property, plant  
and equipment

	-	-
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Reimbursable scientific research income tax credits earned	152,080	214,624
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Reimbursable scientific research income tax credits earned for the year ended August 31, 2010 have not yet been reviewed by the taxation authorities, and the amounts granted could differ from those that have been recorded.

Over the years, the Company qualified to federal income tax credits for scientific research and experimental development, which were non-refundable and could be used against Part I Company tax. The accumulated credits for the year ended on August 31, 2010 are about \$867,000 and expire on a period of 10 to 20 years beginning in 2014.

# Opsens Inc.

## Notes to the consolidated financial statements

August 31, 2010 and 2009

### 23. 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.

	2010			2009		
	Opsens			Opsens		
	Opsens inc.	Solutions	Total	Opsens inc.	Solutions	Total
	\$	\$	\$	\$	\$	\$
External sales	2,892,819	2,387,897	5,280,716	2,721,088	366,728	3,087,816
Internal sales	450,211	-	450,211	81,481	-	81,481
Amortization of property, plant and equipment	151,961	26,793	178,754	147,940	16,520	164,460
Amortization of intangible assets	30,146	1,720	31,866	21,387	-	21,387
Financial expenses	(45,923)	5,084	(40,839)	(92,939)	58,252	(34,687)
Net loss before gain on disposal	(1,317,306)	(464,429)	(1,781,735)	(1,212,563)	(958,069)	(2,170,632)
Gain on disposal	2,375,107	-	2,375,107	-	-	-
Net earnings (loss)	1,057,801	(464,429)	593,372	(1,212,563)	(958,069)	(2,170,632)
Acquisition of property, plant and equipment	65,023	60,366	125,389	256,792	76,912	333,704
Acquisition of intangible assets	29,159	8,084	37,243	31,418	-	31,418
Segment assets	8,612,521	2,903,906	11,516,427	5,182,350	1,267,924	6,450,274

# Opsens Inc.

## Notes to the consolidated financial statements

August 31, 2010 and 2009

### 23. Segmented information (continued)

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

	2010	2009
	\$	\$
Revenue per geographic sector		
Canada	2,601,958	464,061
United States	906,916	754,214
Germany	298,152	363,586
United Kingdom	181,953	146,767
Other	1,291,737	1,359,188
	<b>5,280,716</b>	<b>3,087,816</b>

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 year ended August 31, 2010, revenues from two clients represent individually 28.57% (Opsens Solutions Inc.' reportable segment) and 11.34% (Opsens Solutions Inc.' reportable segment).

During the year ended August 31, 2009, revenues from two clients represent individually more than 10% of the total revenues of the Company, i.e. approximately 15.92% (Opsens Inc.' reportable segment) and 11.16% (Opsens Inc.' reportable segment).

### 24. Additional information to the statements of earnings (loss) and comprehensive earnings (loss)

	2010	2009
	\$	\$
Government assistance	(345,698)	(76,391)
Income tax credits for research and development	(222,010)	(250,648)
Interest and bank charges	20,033	25,599
Interest on demand loan and long-term debt	23,457	42,684
Gain on foreign currency translation	(14,200)	(20,524)
Interest income	(70,129)	(82,446)

### 25. Comparative figures

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