

Interim consolidated financial statements

**Opsens Inc.**

Three-month periods ended November 30, 2010 and 2009

## **Notice**

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

# Opsens Inc.

November 30, 2010 and 2009

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# Opsens Inc.

## Consolidated statements of loss and comprehensive loss

Three-month periods ended November 30, 2010 and 2009

(unaudited)

|   | Three-month<br>period ended<br>November 30,<br>2010 | Three-month<br>period ended<br>November 30,<br>2009 |
|---|---|---|
|   | \$  | \$  |
| Revenues                                      |   |   |
| Sales   | 1,147,323   | 1,070,353   |
| Cost of sales                                 | 854,055   | 621,356   |
| Gross margin                                  | 293,268   | 448,997   |
| Expenses (revenues)                           |   |   |
| Administrative                                | 450,213   | 401,112   |
| Marketing                                     | 122,666   | 204,764   |
| Research and development                      | 350,179   | 211,834   |
| Stock option-based compensation (Note 5b)     | 38,008  | 55,657  |
| Amortization of property, plant and equipment | 45,751  | 42,382  |
| Amortization of intangible assets             | 6,850   | 4,744   |
| Financial charges (income) (Note 3)           | (13,260)  | 24,847  |
|   | 1,000,407   | 945,340   |
| <b>Net loss and comprehensive loss</b>        | <b>(707,139)</b>                                    | <b>(496,343)</b>                                    |
| 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, 2010

(unaudited)

|                                    | Common<br>shares | Warrants  | Stock<br>options | <b>Total</b>      | Common<br>shares | Warrants | Stock<br>options | Contributed<br>surplus | Deficit     | <b>Total</b>     |
|------------------------------------|------------------|-----------|------------------|-------------------|------------------|----------|------------------|------------------------|-------------|------------------|
|                                    | (number)         | (number)  | (number)         | <b>(number)</b>   | \$               | \$       | \$               | \$                     | \$          | \$               |
| Balance as at<br>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> |
| Options cancelled                  | -                | -         | (220,000)        | <b>(220,000)</b>  | -                | -        | (135,786)        | 135,786                | -           | -                |
| Stock-based compensation           | -                | -         | -                | -                 | -                | -        | 38,008           | -                      | -           | <b>38,008</b>    |
| Net loss                           | -                | -         | -                | -                 | -                | -        | -                | -                      | (707,139)   | <b>(707,139)</b> |
| Balance as at<br>November 30, 2010 | 47,865,983       | 2,647,216 | 3,920,500        | <b>54,433,699</b> | 15,201,618       | 861,782  | 967,899          | 1,464,386              | (9,304,881) | <b>9,190,804</b> |

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<br>shares | Warrants  | Stock<br>options | <b>Total</b>      | Common<br>shares | Warrants | Stock<br>options | Contributed<br>surplus | Deficit     | <b>Total</b>     |
|---|------------------|-----------|------------------|-------------------|------------------|----------|------------------|------------------------|-------------|------------------|
|   | (number)         | (number)  | (number)         | <b>(number)</b>   | \$               | \$       | \$               | \$                     | \$          | \$               |
| Balance as at<br>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 issuance – Warrants<br>exercised      | 178,889          | (178,889) | -                | -                 | 206,580          | (63,469) | -                | -                      | -           | <b>143,111</b>   |
| Share issuance – Stock<br>options exercised | 1,250            | -         | (1,250)          | -                 | 1,404            | -        | (316)            | -                      | -           | <b>1,088</b>     |
| Options granted                             | -                | -         | 40,000           | <b>40,000</b>     | -                | -        | -                | -                      | -           | -                |
| Options cancelled                           | -                | -         | (6,000)          | <b>(6,000)</b>    | -                | -        | -                | -                      | -           | -                |
| Stock-based compensation                    | -                | -         | -                | -                 | -                | -        | 55,657           | -                      | -           | <b>55,657</b>    |
| Net loss                                    | -                | -         | -                | -                 | -                | -        | -                | -                      | (496,343)   | <b>(496,343)</b> |
| Balance as at<br>November 30, 2009          | 43,578,483       | 2,710,620 | 2,820,750        | <b>49,109,853</b> | 12,243,243       | 792,608  | 839,277          | 595,047                | (9,225,049) | <b>5,245,126</b> |

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

# Opsens Inc.

## Consolidated balance sheets

|   | November<br>30, 2010<br>(unaudited) | August 31,<br>2010<br>(audited) |
|---|-------------------------------------|---------------------------------|
|   | \$                                  | \$                              |
| <b>Assets</b>   |                                     |                                 |
| Current   |                                     |                                 |
| Cash and cash equivalents (Note 7)                    | 5,323,223                           | 5,347,801                       |
| Accounts receivable                                   | 1,042,302                           | 2,055,923                       |
| Income tax credits receivable                         | 197,789                             | 152,080                         |
| Work in progress                                      | 51,503                              | 40,000                          |
| Inventories   | 1,499,083                           | 1,428,439                       |
| Prepaid expenses                                      | 112,590                             | 144,338                         |
| Balance of purchase price to be received – short term | 458,658                             | 428,024                         |
|   | <b>8,685,148</b>                    | 9,596,605                       |
| Balance of purchase price to be received – long term  | 391,536                             | 398,013                         |
| Property, plant and equipment                         | 698,010                             | 670,059                         |
| Intangible assets                                     | 197,789                             | 175,176                         |
| Goodwill  | 676,574                             | 676,574                         |
|   | <b>10,649,057</b>                   | 11,516,427                      |
| <b>Liabilities</b>                                    |                                     |                                 |
| Current   |                                     |                                 |
| Accounts payable and accrued liabilities              | 1,089,367                           | 1,402,249                       |
| Deferred revenues                                     | 135,566                             | -                               |
| Current portion of<br>long-term debt                  | 134,812                             | 125,001                         |
|   | <b>1,359,745</b>                    | 1,527,250                       |
| Long-term debt  | 98,508                              | 129,242                         |
|   | <b>1,458,253</b>                    | 1,656,492                       |
| <b>Shareholders' equity</b>                           |                                     |                                 |
| Share capital (Note 5a)                               | 15,201,618                          | 15,201,618                      |
| Stock-options (Note 5b)                               | 861,782                             | 1,065,677                       |
| Warrants (Note 5c)                                    | 967,899                             | 861,782                         |
| Contributed surplus                                   | 1,464,386                           | 1,328,600                       |
| Deficit   | (9,304,881)                         | (8,597,742)                     |
|   | <b>9,190,804</b>                    | 9,859,935                       |
|   | <b>10,649,057</b>                   | 11,516,427                      |

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

Approved by the board

Signed [Gordon Zive] director

Signed [Pierre Carrier] director

# Opsens Inc.

## Consolidated statements of cash flows

Three-month periods ended November 30, 2010 and 2009

(unaudited)

|   | Three-month<br>period ended<br>November 30,<br>2010 | Three-month<br>period ended<br>November 30,<br>2009 |
|---|---|---|
|   | \$  | \$  |
| <b>Operating activities</b>                                     |   |   |
| Net loss  | (707,139)   | (496,343)   |
| Adjustments for:  |   |   |
| Amortization of property, plant<br>and equipment                | 45,751  | 42,382  |
| Amortization of intangible assets                               | 6,850   | 4,744   |
| Stock option-based compensation                                 | 38,008  | 55,657  |
| Implicit interest on balance of purchase price to be received   | (24,157)  | -   |
| Changes in non-cash operating<br>working capital items (Note 7) | 740,197   | (472,482)   |
|   | <b>99,510</b>                                       | <b>(866,042)</b>                                    |
| <b>Investing activities</b>                                     |   |   |
| Acquisition of property, plant and equipment                    | (73,702)  | (17,310)  |
| Acquisition of intangible assets                                | (29,463)  | (9,866)   |
|   | <b>(103,165)</b>                                    | <b>(27,176)</b>                                     |
| <b>Financing activities</b>                                     |   |   |
| Increase in long-term debt                                      | 4,156   | 5,586   |
| Reimbursement of long-term debt                                 | (25,079)  | (23,457)  |
| Issuance of equity component                                    | -   | 144,199   |
|   | <b>(20,923)</b>                                     | <b>126,328</b>                                      |
| Decrease in cash and cash equivalents                           | (24,578)  | (766,890)   |
| Cash and cash equivalents at beginning                          | 5,347,801   | 2,887,085   |
| Cash and cash equivalents at end                                | <b>5,323,223</b>                                    | <b>2,120,195</b>                                    |

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

Additional information is presented in Note 7.

# Opsens Inc.

## Notes to the consolidated financial statements

November 30, 2010 and 2009

(unaudited)

### 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"):

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 consolidated financial statements.

*Future accounting policies*

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.

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 ("AcSB") 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 completed by January 1, 2011. On February 13, 2008, the AcSB 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 commercial activities, financial information systems and its consolidated financial statements.

# Opsens Inc.

## Notes to the consolidated financial statements

November 30, 2010 and 2009

(unaudited)

### 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. from the acquisition date.

#### *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 annual financial statements. However, they do not include all information required for annual consolidated financial statements. These consolidated interim financial statements should be read in conjunction with the most recent Company's annual audited financial statements.

The consolidated financial statements as at November 30, 2010 and for the three-month periods ended November 30, 2010 and 2009 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 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 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.

# Opsens Inc.

## Notes to the consolidated financial statements

November 30, 2010 and 2009

(unaudited)

### 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 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.

#### *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 corresponding shareholders' equity account. When stock options or warrants are exercised, the corresponding contributed surplus and the proceeds received by the Company are credited to share capital.

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles and reflect the following significant accounting policies:

#### *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, income tax credits receivable and balance of purchase price to be received 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.

# Opsens Inc.

## Notes to the consolidated financial statements

November 30, 2010 and 2009

(unaudited)

### 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, 2010, the Company was holding more than 85% of its cash equivalents in all time redeemable term-deposit.

#### *Financial charges (income)*

|                                      | <b>2010</b>     | 2009     |
|--------------------------------------|-----------------|----------|
|                                      | \$              | \$       |
| Interest and bank charges            | <b>2,790</b>    | 3,988    |
| Interest on long-term debt           | <b>5,628</b>    | 7,416    |
| Loss on foreign currency translation | <b>39,934</b>   | 26,899   |
| Interest income                      | <b>(61,612)</b> | (13,456) |
|                                      | <b>(13,260)</b> | 24,847   |

#### *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, 2010, the Company was holding more than 85% of its cash equivalents portfolio in all time redeemable term-deposit.

# Opsens Inc.

## Notes to the consolidated financial statements

November 30, 2010 and 2009

(unaudited)

### 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. Three major customers represent 81.35% of the Company's accounts receivable as at November 30, 2010.

As at November 30, 2010, 30.14% of the accounts receivable were of more than 90 days whereas 62.12% 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, 2010, the bad debt provision was established at \$4,081 (\$6,110 on August 31, 2010).

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, 2010 and 2009 had been the same throughout the period, a hypothetical 1% interest rate increase would have had an unfavourable impact of \$201 and \$371 on the net loss for the three-month period ended November 30, 2010 and 2009. 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, 2010 and 2009, if the Canadian dollar had strengthened 10% against the US dollar with all other variables held constant, after-tax net income and other comprehensive income would have been respectively \$3,000 and \$47,000 lower. Conversely, if the Canadian dollar had weakened 10% against the US dollar with all other variables held constant, after-tax net income and other comprehensive income would have been \$3,000 and \$47,000 higher for the same periods.

As at November 30, 2010, the risk to which the Company was exposed is established as follows:

|  | <b>As of<br/>November 30,<br/>2010</b> | As of<br>August 31,<br>2010 |
|--|--|-----------------------------|
|  | \$                                     | \$                          |
| Cash (US\$256,046)                                     | <b>262,857</b>                         | 509,164                     |
| Accounts receivable (US\$215,676)                      | <b>221,345</b>                         | 501,350                     |
| Balance of purchase price to be received (US\$828,165) | <b>850,194</b>                         | 826,037                     |
| Accounts payable and accrued liabilities (US\$125,728) | <b>(129,072)</b>                       | (93,826)                    |
| <b>Total</b>   | <b>1,205,324</b>                       | 1,742,725                   |

# Opsens Inc.

## Notes to the consolidated financial statements

November 30, 2010 and 2009

(unaudited)

### 3. Financial instruments (continued)

#### *Fair value*

The fair value of cash and cash equivalents, accounts receivable, income tax credits receivable, balance of purchase price to be received 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.

The Company defines the fair value hierarchy under which its financial instruments are valued as follows:

Cash and cash equivalents are classified under Level 1, that is the valuation based on active market price in determining fair value.

#### *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 November 30, 2010:

|   | Total            | 0 to 12<br>months | 1 year to<br>2 years | 2 years to<br>5 years | More than<br>5 years |
|---|------------------|-------------------|----------------------|-----------------------|----------------------|
|   | \$               | \$                | \$                   | \$                    | \$                   |
| Accounts payable and<br>accrued liabilities | 1,089,367        | 1,089,367         | -                    | -                     | -                    |
| Long-term debt                              | 230,355          | 143,870           | 70,223               | 16,262                | -                    |
| Obligation under capital lease              | 47,271           | 18,442            | 14,590               | 14,239                | -                    |
| Commitments                                 | 618,399          | 275,672           | 157,572              | 185,155               | -                    |
| <b>Total</b>                                | <b>1,985,392</b> | <b>1,527,351</b>  | <b>242,385</b>       | <b>215,656</b>        | <b>-</b>             |

# Opsens Inc.

## Notes to the consolidated financial statements

November 30, 2010 and 2009

(unaudited)

### 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 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.

|  | Three-month period<br>ended November 30, _____ |           |
|--|--|-----------|
|  | 2010   | 2009      |
|  | \$   | \$        |
| <b>Net loss</b>                                  | <b>(707,139)</b>                               | (496,343) |
| Financial charges (income)                       | <b>(13,260)</b>                                | 24,847    |
| Amortization of property, plant and<br>equipment | <b>45,751</b>                                  | 42,382    |
| Amortization of intangible assets                | <b>6,850</b>                                   | 4,744     |
| Stock option-based compensation                  | <b>38,008</b>                                  | 55,657    |
| <b>EBITDAO</b>                                   | <b>(629,790)</b>                               | (368,713) |

The Company targets to improve these figures which negatively vary for the three-month period ended November 30, 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 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 \$25,796 as of November 30, 2010. The covenants are met as of November 30, 2010.

# Opsens Inc.

## Notes to the consolidated financial statements

November 30, 2010 and 2009

(unaudited)

### 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    | 47,865,983 | 15,201,618 |
| Balance as at November 30, 2010 | 47,865,983 | 15,201,618 |

#### 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 1,000,000 outstanding options granted which are completely vested at grant.

The compensation expense in regards to the stock option plan for the period ended November 30, 2010 is \$38,008 (\$55,657 for the period ended November 30, 2009). The book value of the vested options cancelled during the period was transferred to contributed surplus for \$135,786.

# Opsens Inc.

## Notes to the consolidated financial statements

November 30, 2010 and 2009

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### 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, 2010 are as follows:

|   | Number of<br>options | Weighted<br>average<br>exercise<br>price |
|---|----------------------|--|
|   |                      | \$                                       |
| Outstanding at beginning of year            | 4,140,500            | 0.54                                     |
| Options cancelled                           | (220,000)            | 0.92                                     |
| Outstanding at end of the period            | 3,920,500            | 0.52                                     |
| Options exercisable at end of<br>the period | 2,177,063            | 0.48                                     |

The table below provides information on the outstanding stock options as at November 30, 2010:

| Exercise price | Number of outstanding<br>stock options | Number of exercisable<br>stock options | Weighted average<br>residual duration<br>(years) |
|----------------|--|--|--|
| \$             |  |  |  |
| 0.36           | 219,750                                | 80,000                                 | 4.60   |
| 0.37           | 303,250                                | 75,813                                 | 3.39   |
| 0.38           | 1,100,000                              | 300,000                                | 4.75   |
| 0.40           | 90,000                                 | 35,000                                 | 3.02   |
| 0.42           | 50,000                                 | 12,500                                 | 3.14   |
| 0.45           | 50,000                                 | 50,000                                 | 1.01   |
| 0.50           | 1,060,000                              | 1,055,000                              | 0.86   |
| 0.60           | 50,000                                 | 12,500                                 | 3.58   |
| 0.64           | 50,000                                 | 12,500                                 | 3.55   |
| 0.72           | 500,000                                | 250,000                                | 2.03   |
| 0.80           | 150,000                                | 125,000                                | 1.66   |
| 0.87           | 257,500                                | 128,750                                | 2.39   |
| 1.15           | 40,000                                 | 40,000                                 | 3.96   |
|                | 3,920,500                              | 2,177,063                              | 2.52   |

# Opsens Inc.

## Notes to the consolidated financial statements

November 30, 2010 and 2009

(unaudited)

### 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, 2010 are as follows:

|                                       | Number of warrants | Weighted average exercise price |
|---------------------------------------|--------------------|---------------------------------|
|                                       |                    | \$                              |
| Outstanding at beginning of year      | 2,647,216          | 1.07                            |
| Outstanding at end of period          | 2,647,216          | 1.07                            |
| Warrants exercisable at end of period | 2,647,216          | 1.07                            |

The table below provides information on the outstanding warrants as at November 30, 2010:

| Exercise price | Number of outstanding warrants | Number of exercisable warrants | Weighted average residual duration (years) |
|----------------|--------------------------------|--------------------------------|--|
| \$             |                                |                                |  |
| 0.60           | 204,167                        | 204,167                        | 0.57                                       |
| 0.85           | 299,299                        | 299,299                        | 1.20                                       |
| 1.15           | 2,143,750                      | 2,143,750                      | 1.20                                       |
|                | 2,647,216                      | 2,647,216                      | 1.15                                       |

# Opsens Inc.

## Notes to the consolidated financial statements

November 30, 2010 and 2009

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### 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<br>ended November 30, |             |
|---|--|-------------|
|   | <u>2010</u>                              | <u>2009</u> |
|   | \$                                       | \$          |
| <b>Numerator</b>  |  |             |
| Net loss  | <b>(707,139)</b>                         | (496,343)   |
| Amount available for calculating<br>the loss per share            | <b>(707,139)</b>                         | (496,343)   |
| <b>Denominator</b>  |  |             |
| Weighted average number of shares outstanding                     | <b>47,865,983</b>                        | 43,425,056  |
| Weighted average number of shares<br>outstanding on diluted basis | <b>47,865,983</b>                        | 43,425,056  |
| <b>Amount per share</b>   |  |             |
| Net loss per share  |  |             |
| Basic   | <b>(0.01)</b>                            | (0.01)      |
| Diluted   | <b>(0.01)</b>                            | (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 \$0.36 would have been dilutive and would have resulted in the addition of 6,214 shares to the weighted average number of shares outstanding used in the diluted earnings per share calculation for period ended November 30, 2010 (919,593 as at November 30, 2009).

# Opsens Inc.

## Notes to the consolidated financial statements

November 30, 2010 and 2009

(unaudited)

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

|  | Three-month period<br>ended November 30, |                  |
|--|--|------------------|
|  | 2010                                     | 2009             |
|  | \$                                       | \$               |
| <i>Changes in non-cash operating working capital items</i> |  |                  |
| Accounts receivable  | 1,013,621                                | (353,922)        |
| Income tax credits receivable                              | (45,709)                                 | (41,040)         |
| Work in progress   | (11,503)                                 | -                |
| Inventories  | (70,644)                                 | (180,004)        |
| Prepaid expenses   | 31,748                                   | 5,747            |
| Accounts payable and accrued liabilities                   | (312,882)                                | 96,737           |
| Deferred revenues  | 135,566                                  | -                |
|  | <b>740,197</b>                           | <b>(472,482)</b> |
| <i>Other information</i>                                   |  |                  |
| Interests paid   | 1,734                                    | 11,404           |
| Cash   | 796,976                                  | 241,830          |
| Short-term investments                                     | 4,526,247                                | 1,878,365        |
|  | <b>5,323,223</b>                         | <b>2,120,195</b> |

# Opsens Inc.

## Notes to the consolidated financial statements

November 30, 2010 and 2009

(unaudited)

### 8. Commitments

#### *Lease*

The Company leases offices in Quebec City 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 \$375,323.

Opsens Solutions Inc. rents four vehicles under operating lease expiring in September 2013, October 2013 and May 2014. Future rent payments will amount to \$111,976.

Future payments for the leases and other commitments, totalizing \$618,399, required in each of the next five years are as follows:

|      | \$      |
|------|---------|
| 2011 | 275,672 |
| 2012 | 157,572 |
| 2013 | 155,088 |
| 2014 | 30,067  |
| 2015 | -       |

#### *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, 2010, the Company recognized an expense recovery for \$2,043, (expense of \$1,732 for the period ended November 30, 2009) for guarantees. A provision for \$29,817 (\$31,860 as at August 31, 2010) 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.

# Opsens Inc.

## Notes to the consolidated financial statements

November 30, 2010 and 2009

(unaudited)

### 10. Segmented information (continued)

#### *Sector's information (continued)*

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<br>November 30, 2010 |                                   |             | Period ended<br>November 30, 2009 |                                   |             |
|--|-----------------------------------|-----------------------------------|-------------|-----------------------------------|-----------------------------------|-------------|
|  | Opsens<br>Inc.<br>\$              | Opsens<br>Solutions<br>Inc.<br>\$ | Total<br>\$ | Opsens Inc.<br>\$                 | Opsens<br>Solutions<br>Inc.<br>\$ | Total<br>\$ |
| External sales                                   | 399,626                           | 747,697                           | 1,147,323   | 878,063                           | 192,290                           | 1,070,353   |
| Internal sales                                   | 125,049                           | -                                 | 125,049     | 80,268                            | -                                 | 80,268      |
| Amortization of property,<br>plant and equipment | 35,831                            | 9,920                             | 45,751      | 36,632                            | 5,750                             | 42,382      |
| Amortization of<br>intangible assets             | 6,367                             | 483                               | 6,850       | 4,357                             | 387                               | 4,744       |
| Financial expenses<br>(income)                   | (67,629)                          | 54,369                            | (13,260)    | (4,571)                           | 29,418                            | 24,847      |
| Net loss   | (562,503)                         | (144,636)                         | (707,139)   | (281,646)                         | (214,697)                         | (496,343)   |
| Acquisition of property,<br>plant and equipment  | 19,742                            | 53,960                            | 73,702      | 14,592                            | 2,718                             | 17,310      |
| Acquisition of<br>intangible assets              | 29,463                            | -                                 | 29,463      | 4,694                             | 5,172                             | 9,866       |
| Segment assets                                   | 8,100,631                         | 2,548,426                         | 10,649,057  | 4,832,914                         | 1,399,739                         | 6,232,653   |

#### *Geographic sector's information*

|                               | Three-month period<br>ended November 30, |                  |
|-------------------------------|--|------------------|
|                               | 2010<br>\$                               | 2009<br>\$       |
| Revenue per geographic sector |  |                  |
| Canada                        | 767,340                                  | 215,901          |
| United States                 | 267,489                                  | 337,962          |
| Japan                         | 14,925                                   | 109,350          |
| France                        | 23,611                                   | 109,010          |
| Other                         | 73,958                                   | 298,130          |
|                               | <b>1,147,323</b>                         | <b>1,070,353</b> |

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

# Opsens Inc.

## Notes to the consolidated financial statements

November 30, 2010 and 2009

(unaudited)

### 10. Segmented information (continued)

#### *Geographic sector's information (continued)*

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

During the three-month period ended November 30, 2010, revenues from four clients represent individually more than 10% of the total revenues of the Company, i.e. approximately 30.82% (Opsens Solutions Inc.'s reportable segment), 22.98% (Opsens Solutions Inc.'s reportable segment), 15.42% (Opsens Inc.'s reportable segment) and 11.02% (Opsens Solutions Inc.'s reportable segment).

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).

### 11. Related party transactions

In the normal course of its operations, the Company has entered into transactions with related parties. These transactions have been measured at the exchange amount.

|   | Three-month period<br>ended November 30, |             |
|---|--|-------------|
|   | <u>2010</u>                              | <u>2009</u> |
|   | \$                                       | \$          |
| Professional fees to a<br>company controlled<br>by a shareholder and director | <u>11,050</u>                            | -           |
|   | <u>11,050</u>                            | -           |