opSens

# Measure... Improve


Annual Report 2008

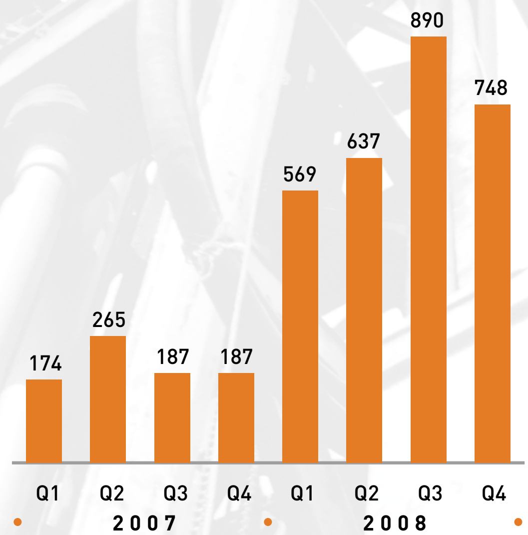
**CORPORATE PROFILE** • **Opsens** is a leading developer, manufacturer and supplier of a wide range of fiber optic sensors and associated signal conditioners based on proprietary patent and patent-pending technologies. Opsens sensors provide long-term accuracy and reliability in the harshest environments. Opsens provides sensors to measure pressure, temperature, strain and displacement to original equipment manufacturers (OEM) and end users in the oil and gas, medical, transformers, and laboratories fields. Opsens provides complete technical support, including installation, training and after-sales service.

## INVESTMENT HIGHLIGHTS

- **Significant growth opportunity**
  driven by increased need to measure temperature and pressure in SAGD oil sands wells.
- **Sensor technology proven**
  in oil sands installation, differentiating us from R&D companies.
- **Widely adaptable technology**
  giving us diverse growth opportunities in three strategic markets.
- **High-margin potential**
  suppported by recurring revenue streams from regular sensor replacement.
- **Financial position**
  sufficient to commercialize our products in oil and gas and medical market.

## FINANCIAL HIGHLIGHTS

**Quarterly Revenue**
($000's)




## Key Events in 2008

- Completed first installation of OPP-W fiber optic sensor for major oil sands operator.
- Raised gross proceeds of C$3.8 million from private placement of units at $0.80 each.
- Completed the acquisition of Inflo Solutions Inc., renamed Opsens Solutions Inc., to spearhead the company's operations in the oil and gas market.
- Records annual revenue increase of 250%, to $2.8 million.
- BAE Systems, leader in the aerospace and defence industry, orders RadSens-type signal conditioners and fiber optic temperature sensors.
- Receives order worth more than $300,000 from Japanese maker of medical devices for Opsens' LifeSens signal conditioners and pressure sensors.
- Receives $400,000 order from European medical technology customer for its LifeSens OEM boards.
- Two major oil sands operators order conventional sensors worth more than $300,000.
- In 1Q 2009, receives order to install OPP-W fiber optic sensors in three wells at Nexen Inc.'s Long Lake SAGD joint-venture project.

## MESSAGE TO OUR SHAREHOLDERS

2008 was a pivotal year for Opsens. Your company maintained its focus on its business plan and we are proud to report that we reached some important milestones this year, and brought the company another step closer to its goal of becoming a major monitoring-solutions provider.

### OIL AND GAS

Our oil and gas operations got a boost early in fiscal 2008, with the acquisition of Inflo Solutions, a company specializing in the design and installation of reservoir surveillance systems using optical and conventional sensors for the oil and gas industry. This independent unit, now called Opsens Solutions Inc., is an essential element in our expansion plan for the oil and gas market.

Opsens Solutions' most promising product is the OPP-W fiber optic sensor for continuous pressure and temperature measurement in very harsh environments, such as the oil sands. At temperatures up to 300 degrees Celsius, the sensor is designed for use in the Steam Assisted Gravity Drainage (SAGD) production process. SAGD is a method in which crude oil sands are heated by injecting steam into pipes below the earth's surface in order to reduce viscosity and extract crude oil.

With our new presence in Edmonton, Opsens has gained specific expertise in design and installation, allowing the company to offer integrated monitoring services of wells and reservoirs directly to its customers. Needless to say, Opsens Solutions is driving our aggressive commercialization efforts into Western Canada's multi-billion dollar oil sands market.

### A PROVEN TECHNOLOGY

I am very proud to say that Opsens reached a significant milestone in fiscal 2008 with the successful first installation of two OPP-W sensors in two wells using the SAGD process. To optimize oil sands production, well operators need to continuously monitor pressure and temperature measurement at high temperatures. Opsens has been refining its OPP-W sensors for this use for the past several years, and undertook extensive in-house testing. We can now say, after several months of measurements in operating wells more than 600 meters below ground, that our OPP-W is a *proven* technology, a significant differentiator from our competitors. This success makes us optimistic about our prospects for fiscal 2009.

### OTHER MARKETS

The 250% growth in revenue in fiscal 2008 is a mark of the growing acceptance our customers are showing of our products in each of our markets, including medical devices, laboratory and high-powered transformers.

In medical devices, we made significant steps forward. We are working closely with a leader in the medical instruments market to supply LifeSens OEM signal conditioners, which use white-light polarization interferometry technology (WLPI). That company is integrating our fiber optic sensors into its device to measure human blood pressure. A single-use optical pressure sensor, being developed in house, would also create recurring revenues in our medical device segment.

We notably increased revenues from the laboratory and high-powered transformers markets by adding new functionality to our fiber optic signal conditioners, as well as delivering high-quality sensors. In the laboratory market, we received an order from BAE Systems, a world leader in the aerospace industry, and in the transformer market, we delivered some units in Asia, expanding our distribution network.

### Other Events

Another 2008 achievement was the certification of our company as being ISO 9000:2001 compliant. Our team put a lot of effort into achieving that milestone, which assures our customers that we will deliver only the finest quality product, essential for any technology company such as Opsens.

On the financial side, we concluded a private placement of units for $3.8 million at $0.80 a unit, which each comprised one share and half of a warrant. The financing provides us with cash to support our expansion in 2009.

### Looking to 2009

2009 already looks promising to us, despite the challenging economic environment. We expect our Opsens Solutions unit to secure orders from new oil sands clients, and are targeting an order to install our technology in a full pad of wells. Our products are designed to save producers money and increase their output, all the more important in the current market. The order we received from Nexen Inc. in the first quarter confirms that customers see our technology as a valuable means to optimize production.

We will be introducing new sensors for measuring multiple parameters in the well to better help maximize oil recovery from producing fields.

We are confident that in fiscal 2009 we will realize major achievements in all of our segments, but in particular we believe that our unique pressure sensor for SAGD optimization will ultimately become the *standard* in high-temperature pressure measurement for all the SAGD fields.

Looking to our medical, laboratories and transformers markets, we will continue in 2009 to increase our efforts at the world-wide commercialization of our products.

Finally, I would like to thank our customers for their confidence in the products and expertise we offer, as well as our employees for their expertise and dedication which were vital in reaching this year's achievements. The counsel and experience of our directors continue to be key ingredients in our growth and creation of shareholder value. I also wish to thank all investors for their trust in the Opsens team.

*(s) Pierre Carrier*
Chairman of the Board, President and CEO

# MANAGEMENT DISCUSSION & ANALYSIS
Annual report for shareholders
Fiscal year ended August 31, 2008

The following comments are intended to provide a review and analysis of the operating results and financial position of Opsens Inc. as of August 31, 2008, and for the fiscal year ended this date in comparison with the fiscal year ended August 31, 2007. They should be read and interpreted in conjunction with the audited financial statements as well as the accompanying notes as of August 31, 2008.

Unless stated otherwise, the interim Management Discussion and Analysis has been prepared in accordance with Canadian Generally Accepted Accounting Principles (GAAP) on a consolidated basis. This document was prepared on November 6, 2008. All amounts are in Canadian dollars unless otherwise noted.

This report contains forward-looking statements that involve risks and uncertainties. These forward-looking statements are not guarantees of our future results, and actual results could differ significantly from those foreseen by such statements due to several factors, including economic conditions, capital expenditures in the measuring instrument sector, currency exchange rate variation, and our ability to manage Opsens successfully under these uncertain conditions. Consequently, the reader should not place undue reliance on these forward-looking statements. These forward-looking statements are only valid as at the date of this document. The Company is under no obligation to revise or update these forward-looking statements in order to reflect the events or circumstances that occur after the date of this analysis except when it is required by law.

## CORPORATE OVERVIEW

Opsens Inc. (the "Company") is a leading developer, manufacturer, and supplier of a wide range of fiber optic sensors and associated signal conditioners based on proprietary patented and patent-pending technologies. Opsens sensors provide long-term accuracy and reliability in the harshest environments. Opsens provides sensors to measure pressure, temperature, strain, and displacement to original equipment manufacturers (OEM) and directly to end-users in the oil and gas, medical instrumentation, high-power transformers, and scientific and military laboratory fields. Opsens offers technical services, such as on-site installation, training, and turnkey fiber optic systems.

Opsens holds three (3) patents and three (3) pending patents covering its products and technology provided to its markets, giving the Company freedom to operate on these markets. With its patented technologies and highly recognized expertise, Opsens meets consumer needs in the medical, oil and gas, high-power transformers, and scientific laboratory markets. Since December 11, 2007, activities in the field of oil and gas have been performed by the wholly-owned subsidiary Opsens Solutions Inc. ("Opsens Solutions"), formerly Inflo Solutions Inc.

## VISION, STRATEGY, AND OUTLOOK

The worldwide market for fiber optic and conventional is a multi-billion dollar market. The Opsens sales and marketing strategy aims to provide solutions for the various current niche markets and develop new specific markets. The Company's expertise, know-how, and patented technology are the keys to new production techniques improving the reliability of measuring equipment. Also, the Opsens production technique called MEMS (Micro-Electro-Mechanical-System) encourages penetration into markets traditionally occupied by conventional sensors through higher production volumes and reduced manufacturing costs.

During fiscal 2009, Opsens expects its revenues from product sales to continue to grow compared to the comparative fiscal year in the oil and gas, medical devices, high-power transformers, and scientific and military laboratory sectors. The testing of the OPP-W sensor for the oil & gas during fiscal 2008 and greater maturity of our products, particularly in the medical sector, are major elements that will contribute significantly to increased revenues. Despite lower price of oil which could affect negatively investment in oil and gas, we perceive that lower oil and gas price will cause producers to look for optimization on operations and encourage mid-term commercialization for the OPP-W sensor.

*Disclosures in volatile and uncertain times in the financial markets*

In the current environment, Opsens continues to execute its business plan, targeting revenue growth in its four strategic sectors. The company continues to invest in human resources to provide its clients with top quality products and services. Given the controls in place in each of Opsens' units, the company doesn't at this point need to take any unusual measures. The current period of uncertainty and volatility has not required the company to change its method of dealing with credit, since Opsens' clients are primarily businesses with strong capitalization, distributors and government-related agencies.

As for recent currency fluctuations, an appreciating American dollar against the Canadian dollar generally favors sales figures and gross margins, since most of Opsens' sales are made in U.S. dollars.

Regarding cash management, the private placement that Opsens completed in 2008 gives the company the financial resources necessary to operate for the next year. The company has not changed its cash management strategy, which aims to protect its financial assets and defer spending that isn't essential to enacting Opsens' business plan in the near to medium term. If Opsens did need to raise money in the future, success would depend on revenue growth.

The accounting estimates used in the financial statements for the year ended August 31, 2008 were not modified for the current uncertain economic environment. These items are receivable tax credits, provisions for contractual guarantees and assumptions tied to the fair value of share options and warrants. Management doesn't anticipate an impact on the company's accounting estimates for fiscal 2009.

**SELECTED CONSOLIDATED FINANCIAL DATA**

| (In thousands of dollars, except for information per share) | **Fiscal year ended August 31, 2008** | **Fiscal year ended August 31, 2007** | **Fiscal year ended August 31, 2006** |
|---|---|---|---|
| | **$** | **$** | **$** |
| Sales | 2,844 | 813 | 691 |
| Partnership revenues | - | - | 231 |
| **Revenues** | 2,844 | 813 | 922 |
| Cost of sales | 1,432 | 639 | 362 |
| **Gross margin** | 1,412 | 174 | 560 |
| Administrative expenses | 984 | 623 | 309 |
| Marketing expenses | 731 | 825 | 434 |
| R&D expenses | 699 | 591 | 363 |
| Financial expenses (income) | (58) | (9) | 143 |
| Stock option-based compensation | 253 | 345 | - |
| Amortization of property, plant and equipment | 100 | 72 | 63 |
| Amortization of intangible assets | 40 | 18 | 13 |
| Write-off of intangible assets | - | 12 | - |
| Amortization of deferred financing fees | - | 10 | 5 |
| Class A retractable shares increase in value | - | - | 273 |
| | 2,749 | 2,487 | 1,603 |
| **Loss before income taxes** | (1,337) | (2,313) | (1,043) |
| Income taxes | - | - | - |
| **Net loss** | (1,337) | (2,313) | (1,043) |
| **Net loss per share - Basic** | (0.04) | (0.08) | (0.05) |
| **Net loss per share - Diluted** | (0.04) | (0.08) | (0.05) |

| (In thousands of dollars) | As at August 31, 2008 | As at August 31, 2007 | As at August 31, 2006 |
|---|---|---|---|
| | $ | $ | $ |
| Current assets | 5,462 | 2,543 | 1,172 |
| Total assets | 6,852 | 3,029 | 1,610 |
| Current liabilities | 770 | 541 | 889 |
| Long-term debt | 253 | 499 | 623 |
| Class A retractable shares | - | - | 773 |
| Shareholders' equity | 5,829 | 1,989 | (675) |

No dividend was declared per share for each share class.

On October 3, 2006, Opsens completed a qualifying transaction under the rules of the TSX Venture Exchange Corporate Finance Manual. On April 8, 2008, the Company completed a private placement of 4,711,126 units at a price of $0.80 per unit for gross proceeds of $ 3,768,901.

**SUMMARY OF CONSOLIDATED QUARTERLY RESULTS**

The summary below presents the periods in which Opsens published unaudited interim financial statements.

| (In thousands of dollars) | Three-month period ended August 31, 2008 | Three-month period ended May 31, 2008 | Three-month period ended February 29, 2008 | Three-month period ended November 30, 2007 |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| Revenues | 748 | 890 | 637 | 569 |
| Net loss for the period | 228 | 359 | 403 | 347 |
| Net loss per share - Basic | (0.01) | (0.01) | (0.01) | (0.01) |
| Net loss per share - Diluted | (0.01) | (0.01) | (0.01) | (0.01) |

| (In thousands of dollars) | Three-month period ended August 31, 2007 | Three-month period ended May 31, 2007 | Three-month period ended February 28, 2007 | Three-month period ended November 30, 2006 |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| Revenues | 187 | 187 | 266 | 174 |
| Net loss for the period | 531 | 700 | 520 | 562 |
| Net loss per share - Basic | (0.02) | (0.02) | (0.02) | (0.02) |
| Net loss per share - Diluted | (0.02) | (0.02) | (0.02) | (0.02) |

The acquisition of Inflo Solutions (See the *Strategic Acquisition and Development of New Products* section) on December 11, 2007, stimulated sales in the oil and gas sector beginning in the second quarter of fiscal year 2008.

Usually, the Company's industry and its revenues are affected very little by seasonal fluctuations. These fluctuations will become more significant as the weighting of sales in the oil and gas sector increases, since business activity is generally greater in the winter quarters for this sector.

**FOURTH QUARTER 2008**

For the fourth quarter ended August 31, 2008, the Company recorded a net loss of $228,000 or $0.01 per share. For the same quarter in fiscal year 2007, the loss was $531,000 or $0.02 per share. The decreased loss during the fourth quarter of fiscal year 2008 is explained in particular by an increase in revenues, the gross margin rate, the gross margin and financial income. Seasonal fluctuations and year-end adjustments had no impacts on operating revenues and net loss for fourth quarter 2008.

Revenues totalled $748,000 for the three-month period ended August 31, 2008, compared to $187,000 for the corresponding period in 2007. The strong growth in revenues was generated primarily by increased sales in the oil and gas, medical, and scientific and military laboratories sectors.

Administrative expenses amounted to $319,000 for the three-month period ended August 31, 2008, compared to $189,000 for the same period in 2007. This increase was mainly due to the administrative expenses generated by the new subsidiary Opsens Solutions and a rise in employment levels of $60,000.

Marketing expenses were $179,000 and $165,000 respectively for the fiscal years ended August 31, 2008 and 2007. This increase was primarily caused by the $54,000 increase in consulting fees and the overall decrease in other expenses.

R&D expenses totalled $165,000 for the fiscal year ended August 31, 2008, compared to $110,000 for the same period in 2007. This increase resulted from higher employment levels and a decrease in tax credits.

**PERFORMANCE INDICATORS**

In order to evaluate the Company's performance and generate long-term value for its shareholders, the Company has identified the following financial and non-financial performance indicators:

1) Distribution, sales, and long-term recurring revenues;
2) Products and innovation;
3) Short-term financial performance and cash flows;
4) Strategic acquisitions and development of new projects.

## FISCAL YEARS ENDED AUGUST 31, 2008 AND 2007

**DISTRIBUTION, SALES, AND LONG-TERM RECURRING REVENUES**

| (In thousands of dollars except for percentage data figures) | Fiscal year ended August 31, 2008 | Fiscal year ended August 31, 2007 |
|---|---|---|
| | $ | $ |
| Revenues | 2,844 | 813 |
| Growth rate (%) | 250 | |
| Gross margin | 1,412 | 174 |
| Growth rate (%) | 710 | |

The Company generated $2,844,000 in sales for the fiscal year ended August 31, 2008, compared to $813,000 for the comparative fiscal year, registering an increase of 250%. The increased sales for fiscal year 2008 were generated by organic growth in the medical device, scientific and military laboratory, and high-power transformers market of more than $1,200,000 in addition to growth through the acquisition of a wholly-owned subsidiary based in Edmonton dedicated to the oil and gas market. Sales within the oil and gas market reached nearly $800,000 ($207,000 accounted for within the Opsens Inc. reportable segment) for fiscal year 2008.

The gross margin rate and the gross margin on product sales increased for the fiscal year ended August 31, 2008, in relation to the previous fiscal year, as the company realized economies of scale. The increase was generated by the strong weighting, in relation to total sales, of the scientific and military laboratory market, a market where the generated margin is high. The gross margin rate obtained during fiscal year 2008 is within the minimum expected target of 40%. As at August 31, 2008, the backlog amounted to $295,000.

Given that a large proportion of the Company's revenue is generated in US dollars, while most costs are priced in Canadian dollars, fluctuation in the exchange rate affects revenue. For the fiscal year ended August 31, 2008, the average exchange rate was less than the previous year, which increased sales by $239,000 for the fiscal year ended August 31, 2008.

Market acceptance of fiber optic sensors is increasing in various sectors. Consequently, some sectors, such as high-power transformers, are seeing additional competition. To face this competition, Opsens is working to highlight the performance characteristics of its products compared to competitors.

## PRODUCTS AND INNOVATION

The Company is constantly working to improve its position in terms of intellectual property and what it can offer to its customers. During the fiscal year ended August 31, 2008, Opsens emphasized the continuous improvement of its existing product line and concentrated on its products intended for the medical devices and oil and gas markets. The Company's R&D strategy involves focusing its new product development efforts toward markets with very high potential. The oil and gas market is a concrete example of the application of this strategy.

R&D expenses increased to $699,000 in FY 2008 from $591,000 a year earlier. The change in R&D expenses during the period was generated mainly by increased employment levels.

## SHORT-TERM FINANCIAL PERFORMANCE AND CASH FLOWS

*Net loss*

Reconciliation of EBITDA to the Annual Results

| (In thousands of dollars) | Fiscal year ended August 31, 2008 | Fiscal year ended August 31, 2007 | Fiscal year ended August 31, 2006 |
|---|---|---|---|
| | $ | $ | $ |
| Net loss for the period | (1,337) | (2,313) | (1,043) |
| Financial expenses (income) | (58) | (9) | 143 |
| Amortization of property, plant, and equipment | 100 | 72 | 63 |
| Amortization of intangible assets | 40 | 18 | 13 |
| Write-off of intangible assets | - | 12 | - |
| Amortization of deferred financing fees | - | 10 | 5 |
| Increase in the value of class A retractable shares | - | - | 273 |
| EBITDA[1] | (1,255) | (2,210) | (546) |
| Stock-based compensation costs | 253 | 345 | - |
| EBITDA before stock-based compensation costs | (1,002) | (1,865) | (546) |

(1) The Company uses only one financial measure that is not consistent with Canadian GAAP, namely earnings before interest, income taxes, depreciation and amortization (EBITDA). Such a measure is used because management believes that it provides meaningful information about the Company's performance and operating results. Such a non-GAAP measure has no standardized meaning as prescribed by GAAP and is not necessarily comparable to similarly titled measures presented by other companies. Accordingly, it should not be considered independently of other figures.

For the fiscal year ended August 31, 2008, net loss totalled $1,337,000, compared to $2,313,000 for the fiscal year ended August 31, 2007. This decrease in net loss as well as the EBITDA before stock-based compensation costs for fiscal 2008 compared with a year earlier mainly reflects the increase in sales and gross margin combined with a $262,000 increase in other expenses.

Fiscal 2009 results will be strongly influenced by product sales volume. The expansion of marketing activities within the oil and gas market following the OPP-W installations in 2008 should contribute to the increase in EBITDA.

Information by reportable segments

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.) while the other (Opsens Solutions) specializes in the marketing and installation of optical and conventional sensors for the oil and gas industry.

| | 2008 | | | 2007 | | |
|---|---|---|---|---|---|---|
| | Opsens Inc. | Opsens Solutions | Total | Opsens Inc. | Opsens Solutions | Total |
| | $ | $ | $ | $ | $ | $ |
| External sales | 2,249,000 | 595,000 | 2,844,000 | 813,000 | - | 813,000 |
| Internal sales | 4,000 | 87,000 | 91,000 | - | - | - |
| Amortization of property, plant and equipment | 95,000 | 5,000 | 100,000 | 72,000 | - | 72,000 |
| Amortization of intangible assets | 20,000 | 20,000 | 40,000 | 30,000 | - | 30,000 |
| Financial expenses | (72,000) | 14,000 | (58,000) | (9,000) | - | (9,000) |
| Income taxes | - | - | - | - | - | - |
| Net income (loss) | (1,232,000) | (105,000) | (1,337,000) | (2,313,000) | - | (2,313,000) |
| Acquisition of property, plant and equipment | 270,000 | 45,000 | 315,000 | 142,000 | - | 142,000 |
| Acquisition of intangible assets | 38,000 | - | 38,000 | 74,000 | - | 74,000 |

The annual performance of the Opsens Inc. operating unit showed a sharp increase in revenues.

The Opsens Solutions operating unit began to generate earnings for the consolidated financial statements beginning December 11, 2007. This sector's performance contributed positively to sales growth while achieving major milestones for the Company's future, i.e. the successful installation of the OPP-W sensor within two wells operated with the Steam Assisted Gravity Drainage (SAGD) technology.

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

| | 2008 | 2007 |
|---|---|---|
| | $ | $ |
| Revenue by geographic sector | | |
| Canada | 652,000 | 27,000 |
| United States | 934,000 | 316,000 |
| Germany | 417,000 | 229,000 |
| United Kingdom | 285,000 | 50,000 |
| Other | 556,000 | 192,000 |
| | 2,844,000 | 813,000 |

Revenue is attributed to geographic segments based on the customers' location.

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

During the fiscal year ended August 31, 2008, revenues from three customers individually represented more than 10% of the Company's total revenues, i.e. approximately 18.09% (Opsens Solutions reportable segment), 17.62% (Opsens Inc. reportable segment) and 13.09% (Opsens Inc. reportable segment). For the fiscal year ended August 31, 2007, revenues from one customer represented 28.11% of the Company's total revenues.

*Administrative expenses*

Administrative expenses were $984,000 for the fiscal year ended August 31, 2008, compared to $623,000 for fiscal year 2007.

Administrative expenses increased mainly due to the administrative expenses generated by the new subsidiary Opsens Solutions and a rise in employment levels. In fiscal year 2009, administrative expenses will continue to increase, particularly in light of the expansion of the headquarters and the full-scale increase in expenses to support the anticipated growth in sales.

*Sales and marketing expenses*

Sales and marketing expenses decreased by $94,000 to $731,000 for the fiscal year ended August 31, 2008, compared to $825,000 for fiscal year 2007.

This decrease is explained mainly by the reduced conference participation expenses. Sales and marketing expenses for the next fiscal year should increase in relation to the previous year, given the expected deployment of our sales and marketing activities at our Quebec installations as much as at our Edmonton installations.

*Financial income (expenses)*

Financial income was $58,000 for the fiscal year ended August 31, 2008, compared to $9,000 for the previous year. The increased financial income during fiscal year 2008 was the direct consequence of the exchange rate gain resulting from the appreciation of the American dollar against the Canadian dollar, particularly during the last quarter of the fiscal year.

*Financing activities cash flow*

***Private placement***

On April 8, 2008, the Company completed a private placement of 4,711,126 units at a price of $0.80 per unit for gross proceeds of $3,768,901. Each unit is comprised of one common share and one-half common share purchase warrant in the Company. Each whole common share purchase warrant will entitle the holder to purchase one common share in the Company at a price of $1.10 for a 24-month period following the closing of the private placement or, should the 20-day volume weighted average price of Opsens common shares trade on the TSX Venture Exchange at or above $1.50 during this same 24-month period, Opsens may accelerate the expiration date of the share purchase warrants by giving prior written notice to the warrant holders within 10 working days immediately following the date on which the triggering event occurs. The share purchase warrants will then expire 30 calendar days after written notice of such an event is received or deemed received by the warrant holders.

Opsens has paid to the agents a cash commission equal to $263,823 and issued warrants to brokers entitling them to purchase 329,779 common shares in Opsens. The issued broker warrants will have an exercise price per common share equal to the issue price for a period of 24 months from the closing of the private placement. The securities issued as part of the offering were subject to a mandatory four-month restricted period expiring on August 9, 2008.

The net proceeds of the Private placement will be used for acquisitions, marketing and general working capital purposes. The funding obtained will provide Opsens with cash resources to expand its sales and marketing activities and finalize the three main product development partnerships, which should provide long-term recurring revenues to the Company.

***Warrants exercised***

For the fiscal year ended August 31, 2008, 1,483,611 warrants entitling their holders to acquire one common share in the Company at an average price of $0.56 per share were exercised for a total amount of $834,111. The book value of the exercised warrants was transferred to share capital in the amount of $207,642.

As at the date of this Management Discussion and Analysis, the following components of shareholders' equity are outstanding:

| | |
|---|---|
| Common shares | 40,481,677 |
| Stock options | 2,442,500 |
| Warrants | 2,796,453 |
| Securities on a fully diluted basis | 45,720,630 |

On October 3, 2008, 50,000 warrants entitling its holder to acquire one common share of the Company at a price of $0.40 per share were exercised for an amount of $20,000. The book value of the exercised warrants was transferred to Share Capital in the amount of $8,000.

After year end, 393,000 and 4,865,000 warrants entitling its holder to acquire one common share of the Company at a price of $0.40 and $0.60 per share respectively expired.

In addition, the Company granted to some employees a total of 210,000 stock options with an average exercise price of $0.48 per share and cancelled 10,000 stock options with an exercise price of $0.87 per share.

*Investing activities cash flow*

Opsens acquired various fixed assets for $315,000 during the fiscal year ended August 31, 2008, compared to $142,000 for fiscal year 2007. These acquisitions were made primarily to gain access to high-tech R&D and production equipment. Also, investments were made in order to optimize the recently acquired installations in Edmonton.

As for intangible assets, Opsens invested $38,000 and $74,000 for fiscal years 2008 and 2007 respectively. These investments involved patent protection for the Company's inventions.

*Cash and cash equivalents*

As at August 31, 2008, the Company had cash and cash equivalents of $3,743,000, compared to $1,839,000 as at August 31, 2007. Of this amount as at August 31, 2008, $3,595,000 was invested in highly liquid, safe investments. The Company also has an available line of credit in the amount of $200,000. This line of credit incurs interest at prime +2%. The restrictive clauses of the Company's financial institution are respected.

*Financial position*

As at August 31, 2008, Opsens had working capital of $4,691,000, compared to working capital of $2,002,000 as at August 31, 2007. Based on the private placement completed on April 8, 2008, the exercised warrants, its cash and cash-equivalents, its working capital, and its order backlog, Opsens has the financial resources necessary to maintain short-term operations, honour its commitments, and support its anticipated growth and development activities. From a medium-term perspective, Opsens may need to raise additional financing by issuing equity securities and debts. In the long term, there is uncertainty about obtaining additional financing, given the risks and uncertainties identified in the *Risks and uncertainties* section. During the coming quarters, fluctuation in cash assets will depend particularly on the rate of revenue growth.

For the next twelve-month period, the widespread sales growth should require the Company to make an additional investment of a few hundred thousand dollars in accounts receivable and inventory.

*Commitments*

The Company rents offices in Quebec 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 $640,604.

Opsens Solutions rents offices in Alberta under a letter of agreement. A lease should be signed during the next quarter in order to finalize a verbal commitment. In the event that the lease is not signed, the company was obligated to pay the monthly lease payments until September 30, 2008. As a result, future lease payments will amount to $4,478 as of August 31, 2008.

Opsens Solutions rents a vehicle under an operating lease expiring in November 2010. Future rent payments will amount to $18,945.

The Company is committed to purchasing equipment in the amount of $62,885.

Future payments for the lease and other commitments, totalizing $1,068,241, required in each of the next five years are as follows:

| | $ |
|---|---|
| 2009 | 372,239 |
| 2010 | 214,443 |
| 2011 | 184,628 |
| 2012 | 121,023 |
| 2013 | 121,523 |
| Thereafter | 54,385 |

The following table summarizes the Company's minimum contractual commitments related to debt for the future fiscal years ending August 31, 2009, 2010, 2011, 2012, and 2013.

| | Obligations – Capital leases | | | Other debts | Debts and principal portion of capital leases |
|---|---|---|---|---|---|
| | Total payments | Imputed interest | Principal payments | | |
| 2009 | $7,000 | $2,000 | $5,000 | $218, 000 | $223,000 |
| 2010 | $7,000 | $1,000 | $6,000 | $82,000 | $88,000 |
| 2011 | $7,000 | $1,000 | $6,000 | $76,000 | $82,000 |
| 2012 | $5,000 | $- | $5,000 | $39,000 | $43,000 |
| 2013 | $- | $- | $- | $38,000 | $38,000 |

According to the terms of the agreement related to the long-term debt of Investissement Québec and its financial institution, the Company is subject to certain restrictive clauses for maintaining minimum financial ratios.

The Company expects to meet its short-term cash needs with its working capital position.

<u>License</u>

According to an exclusive license agreement with a third party, the Company has committed to providing exclusivity for the marketing of some of its products for a defined territory.

*Related-party transactions*

During the normal course of business, management and professional fees have been incurred from related parties. These transactions have been valued at the exchange amount agreed by the parties. Professional fees were disbursed in exchange for administrative support and management consulting.

| | 2008 | 2007 |
|---|---|---|
| | $ | $ |
| Management fees paid to a shareholder | - | 833 |
| Professional fees to a company controlled by a shareholder and director | 30,000 | 35,000 |
| | 30,000 | 35,833 |

*Financial instruments*

Credit risk

The Company grants credit to its customers in the normal course of business. Evaluations of all of its accounts receivable are performed on an ongoing basis, and an allowance for bad debt is recorded when certain accounts are deemed uncollectible.

Interest rate and cash flow risk

The Company is exposed to interest rate fluctuations on certain long-term debts with variable interest rates. The Company does not actively manage this risk.

Foreign exchange risk

The Company makes some sales and partnership revenue and some purchases of supplies and professional services in US dollars. Therefore, it is exposed to foreign currency fluctuations. The Company does not actively manage this risk. The Company expects that its weighting of Canadian sales will increase simultaneously with sales in the oil and gas sector, which will ease the fluctuation of foreign exchanges on sales in a weighted manner.

Fair value

The fair value of cash and cash equivalents, accounts receivable, income tax credits receivable, and accounts payable and accrued expenses is approximately their carrying value because of their short time to maturity. 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 at which the Company currently expects to be able to obtain loans with similar terms and conditions and maturity dates. The fair value of long-term debt is close to its carrying value because of current market rates.

## STRATEGIC ACQUISITIONS AND NEW PROJECT DEVELOPMENT

In its business plan, Opsens has identified some acquisition targets for growth. In order to maximize value creation for our shareholders, and based on the opportunities, Opsens may make strategic acquisitions during the next fiscal year. Opsens remains open to any business opportunities that could occur at any time.

On December 11, 2007, the Company acquired all of the outstanding shares of Inflo Solutions Inc. ("Inflo"), which designs and installs solutions intended for the analysis of reservoirs based on optical and conventional sensors within the oil industry. The purchase price was 1,199,997 Opsens common shares and $120,000 cash. At the closing, 510,000 shares out of the first 600,000 shares were paid into escrow and will be released over a 48-month period. The balance of the shares and the cash, represented by a series of promissory notes, have also been paid into escrow, to be released or cancelled, as applicable, over a 48-month period ending December 11, 2011, following the achievement or non-achievement of certain performance milestones. The Company has also committed to investing up to $350,000 into the working capital of Inflo during the 48-month period following the acquisition. As at August 31, 2008, an amount of $425,000 has been advanced.

On April 8, 2008, a milestone was achieved, releasing a series of promissory notes with a total value of $60,000. This amount has been booked as goodwill.

On August 31, 2008, the Company renegotiated the agreement made on December 11, 2007. The revised agreement eliminated the possibility of cancelling 499,997 shares against an escrow ending on December 11, 2011.

This acquisition has been accounted for using the purchase method, and the operating results have been included in the company's consolidated financial statements from the date of acquisition. The purchase price allocation shown below is based on the fair value estimate made by the company:

| | Amount |
|---|---|
| | $ |
| Assets | |
| Cash | 6,029 |
| Current assets | 42,024 |
| Order backlog | 20,000 |
| | 68,053 |
| Liabilities | |
| Current liabilities | 44,377 |
| Net identifiable assets acquired | 23,676 |
| Goodwill | 676,574 |
| Purchase price | 700,250 |
| Less: | |
| Cash acquired | 6,029 |
| Issuance of shares in connection with the acquisition | 525,574 |
| Net cash used for the acquisition | 168,647 |

The value attributed to the order backlog as part of the purchase price allocation has been amortized based on the realization of revenues from present contracts in the order backlog at the time of the acquisition. For the fiscal year ended August 31, 2008, there was $20,000 in intangible asset amortization for the order backlog. Goodwill is not deductible for the purposes of income taxes.

The Company now considers the activities of Opsens Solutions as a reportable segments as defined by the CICA Handbook. Opsens Solutions participates in activities related to the oil and gas market. For the year ended August 31, 2008, Opsens Solutions made a positive contribution to revenue growth.

**CHANGE IN ACCOUNTING POLICIES**
Impact of adopting the new Financial instruments standards

On September 1, 2007, the Company adopted the new accounting standards issued by the Canadian Institute of Chartered Accountants ("CICA") regarding Financial instruments- Recognition and measurement (Section 3855), Financial Instruments – Disclosure and presentation (Section 3861), Hedges (Section 3865) and Comprehensive Income (section 1530). Information released prior to September 1, 2007 was not restated.

On September 1, 2007, the Company made the following adjustments in order to conform to the new accounting standards:

| | Amount |
|---|---|
| | $ |
| Decrease | |
| Balance Sheet | |
| Assets | |
| Deferred financing costs | 4,336 |
| Liabilities | |
| Long-term debt | 78,023 |
| Statement of deficit | |
| Change in accounting policies | 73,687 |

Financial Instruments – Recognition and measurement

Short-term investments

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

The fair value of financial instruments represents the amount at which the financial instruments could be traded knowingly and voluntarily between the parties involved. The fair value is based on market prices (buyer-seller prices) in an active market. If this is not the case, the fair value is based on market prices prevailing for instruments with similar risk profiles or characteristics or on internal or external valuation models that use observable market data.

Derivative financial instruments

Derivative financial instruments must be recorded at fair value unless they are specifically designated in an effective hedging relationship, and the change in fair value will be recorded directly in net earnings.

Long-term debt

The long-term debt is classified as "other liabilities" and is recorded at amortized cost.

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

Other comprehensive income (loss)

According to the new accounting standards, the Company must present a comprehensive income statement. Since the Company has classified all of its financial instruments as financial instruments "held for trading", except for the long-term debt which is classified as "other liabilities", there is no element to be disclosed distinctively in other comprehensive income. Consequently, the net earnings (net loss) also represents the results of the comprehensive income (loss).

**SIGNIFICANT ACCOUNTING PRINCIPLES**

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("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

Raw materials are valued at the lower of cost and replacement cost, and finished goods are valued at the lower of cost and the net realizable value. Cost is determined using the moving average method.

Property, plant and equipment and intangible assets

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% |
| Automative 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% |

Service contracts are intangible assets with definite useful life which were accounted for at cost. Amortization was based on the fair value of the contracts on the total value of the contracts portfolio acquired. The service contracts were fully amortized during the year.

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

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.

Deferred financing costs

Deferred financing costs comprise legal expenses and expenses incurred for the issuance of long-term debt and expenses incurred to complete the qualifying transaction and the related placement. Until August 31, 2007, they were amortized using the straight-line method over the term of the corresponding debt. Since September 1st, 2007, the amounts paid are amortized using and presented against corresponding debt (Note 2). Expenses related to the qualifying transaction are applied against shareholders' equity.

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.

Loss per share

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

Stock-based compensation and other stock-based payments

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

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

Revenues related to product sales are recognized when convincing evidence of an arrangement exists, delivery has occurred, the price to the buyer is fixed or determinable, and collection is reasonably guaranteed.

Sensor installation services, contract revenues earned over a long period, and partnership 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.

Financial instruments

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

The long-term debt is classified as “other liabilities” and is recorded at amortized cost.

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

Use of estimates

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

Future accounting changes

The CICA has issued new accounting standards:

Section 3031, Inventories. This Section 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. Management of the Company is a review of the new standard and does not expect the adoption of this standard will have a significant impact on the Company's consolidated financial statements.

Section 3862, Financial Instruments – Disclosures. This section describes the required disclosures related to the significance of financial instruments on the Company's financial position and performance and the nature and extent of risks arising for financial instruments to which the Company is exposed and how the Company manages those risks. This Section complements the principles of recognition, measurement, and presentation of financial instruments of Section 3855, Financial Instruments – Recognition and Measurement, Section 3863, Financial Instruments – Presentation and Section 3865, Hedges. The Company's management does not expect the adoption of this standard will have an impact on the consolidated financial statements as the standard relates to note disclosure.

Section 3863, Financial Instruments – Presentation. This section establishes standards for presentation of financial instruments and non-financial derivatives. It replaces standards of Section 3861, Financial Instruments – Disclosure and Presentation. The Company does not expect the adoption of this standard will have an impact on the consolidated financial statements as the standard relates to note disclosure.

Section 1535, Capital Disclosures. This section establishes standards for disclosing information about an entity's capital and how it is managed to enable users of financial statements to evaluate the entity's objectives, policies and procedures for managing capital. The Company does not expect the adoption of this standard will have an impact on the consolidated financial statements as the standard relates to note disclosure.

The above standards will be effective for the Company as of September 1, 2008.

e) 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 will adopt 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 does not expect that the adoption of this new Section will have a material impact on its consolidated financial statements.

International Financial Reporting Standards

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

The Company has not begun to assess the future impact of these new standards on its consolidated financial statements.

## RISK FACTORS AND UNCERTAINTIES

Opsens operates in an industry that is subject to various risks and uncertainties. The Company's business, financial position, and operating results could be impacted negatively by these risks and uncertainties. The risks and uncertainties listed below are not the only risks and uncertainties that could impact the Company.

*Capital requirements*

Additional financing may be required for operating and investment activities. There is no guarantee that additional capital would be available for situations that would be acceptable for Opsens and favourable for its growth.

*Revenues*

Opsens draws most of its revenue from the sale of readout devices and fiber optic sensors. The company feels that the revenue from these products will continue to represent a significant share of Opsens' revenue for the foreseeable future. Consequently, Opsens is particularly vulnerable to fluctuations in the demand for its products. Therefore, if demand for Opsens products decreases significantly, the company and the operating results could be unfavourably affected.

*Labour and key personnel*

Opsens depends on the services of its engineers, technical employees, and key management personnel. The loss of one of these people could have a significant unfavourable impact on the company, its operating results, and its financial position. The success of Opsens is largely dependent upon its ability to identify, hire, train, motivate, and retain highly skilled management employees, engineers, technical employees, and sales and marketing personnel. Competition for its employees can be intense, and Opsens can only ensure that it will be able to bring in and retain highly skilled technical and management personnel in the future. Its ability to bring in and retain management and technical personnel and the necessary sales and marketing employees could have an unfavourable impact on its growth and future profitability. Opsens may be obligated to increase the compensation paid to current or new employees, which could substantially increase operating expenses.

*Growth management and market development*

There is no guarantee that Opsens can develop its market significantly, thus affecting its profitability. Opsens' expected rapid growth may create significant pressure on management, operations, and technical resources. Opsens foresees increased operating and personnel expenses in the future. In order to manage its growth, Opsens may need to increase the size of its technical and operational staff and manage its personnel while maintaining many effective relationships with third parties. There is no guarantee that Opsens will be able to manage its business growth. The inability of Opsens to establish consistent management systems, add economic resources, or manage its expansion adequately will have a significant, unforeseeable effect on its activities and operating results.

*Pricing policies*

The competitive market in which Opsens operates could force it to reduce its prices. If its competitors offer large discounts on certain products and services in order to gain market share or sell products and services, Opsens may need to lower its prices and offer other favourable terms in order to compete successfully. Such changes could reduce profit margins and have an unfavourable impact on its operating results. Some of Opsens' competitors could offer products and services that compete with theirs for promotional purposes or as part of a long-term pricing strategy or offer price guarantees or product implementation. With time, these practices could limit the prices that Opsens may charge for its products and services. If Opsens cannot offset these price reductions with a corresponding increase in sales or decreased expenses, the decreased revenues from products and services could unfavourably affect its profit margins and operating results.

*Product failures and mistakes*

Opsens products are complex and therefore may contain failures and mistakes that could be detected at any time in a product's life cycle. Failures and mistakes in its products could have a significant unfavourable impact on its reputation, open it up to significant costs, delay product launch dates, and harm its ability to sell its products in the future. The costs of correcting a failure or mistake in one of these products could be significant and could negatively affect its operating margins. Although Opsens expects to continue to test products to detect failures and mistakes and to work with its customers through its support and maintenance services in order to find and correct failures and mistakes, they could appear in its products in the future.

*Warranties, recalls, and legal proceedings*

Opsens is exposed to warranty expenses, product recalls, and other claims, particularly if the products prove to be defective, which would harm business development and the Company's reputation.

*Intellectual property and exclusive rights*

In order to protect its intellectual property rights, Opsens relies on a combination of laws related to patents and trademarks, trade secrets, confidentiality procedures, and contractual provisions. Despite Opsens' best efforts to protect its intellectual property rights, unauthorized individuals may attempt to copy certain aspects of Opsens products or obtain information that Opsens considers to be its property. The monitoring of the unauthorized use of exclusive technologies, if applicable, may prove difficult, time-consuming, and expensive. In addition, the laws of certain countries in which Opsens products will be sold do not protect their products and their related intellectual property rights in the same way as the laws of Canada and the United States. There is no certainty that Opsens will successfully protect its intellectual property rights, which could unfavourably affect it. Patents applications, claims, PCTs, and Continuations in Part files by Opsens could be incomplete, invalid, circumvented, or deemed not applicable. Legal proceedings could prove necessary to carry out patent applications, claims, PCTs, and Continuations in Part. These cases could lead to considerable expenses without any guarantee of success. Despite Opsens' best efforts to ensure its right to market its products on its target markets, competitor patents could impede the sales potential of certain products.

*Competition and technological obsolescence*

Competitors and new companies could launch new products. In order to remain on the cutting edge of technology, Opsens may need to launch a new generation of fiber optic sensors and develop its related products and services. Whether it is competition from development companies and/or marketing of fiber optic sensors or a merger or acquisition of existing companies, competition within certain fiber optic sensor industry sectors offering solutions similar to what Opsens offers is vigorous and could increase. Some of Opsens' competitors have significantly greater financial, technical, distribution, and marketing resources than Opsens. Technological progress and product development could make Opsens products obsolete or reduce their value.

*Currency exchange rate*

Since Opsens makes most of its sales in US dollars, while a large part of its operating expenses are incurred in Canadian dollars, exchange rate fluctuations between the two currencies may have an unfavourable impact on its activities, financial position, and operating results. Based on outlooks and its expected penetration in the oil and gas market, the weighting of Canadian sales should increase during the coming fiscal years and, consequently, reduce Opsens' currency exchange risk.

*Restrictive clauses*

The Company has restrictive clauses regarding indebtedness and working capital in the agreement with its financial institution. If these restrictive clauses are not respected, Opsens may need to allocate a portion of its working capital to repaying the LFPEC loan, valued at $77,132 as at August 31, 2008.

## OTHER INFORMATION

Updated information on the Company can be found on the SEDAR Web site at http://www.sedar.com.

On behalf of management,
Chief Financial Officer and Secretary

*(s) Louis Laflamme*

November 26, 2008

Deloitte.

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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, 2008 and 2007 and the consolidated statements of loss and comprehensive loss, deficit 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, 2008 and 2007 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.

Chartered Accountants

October 10, 2008

Member of
**Deloitte Touche Tohmatsu**

# Opsens Inc.

## Consolidated Statements of Loss and Comprehensive Loss
## Years ended August 31, 2008 and 2007

| | 2008 | 2007 |
|---|---|---|
| | **$** | $ |
| Revenues | | |
| Sales | **2,844,239** | 813,108 |
| Cost of sales | **1,432,385** | 638,898 |
| Gross margin | **1,411,854** | 174,210 |
| Expenses (Revenues) | | |
| Administrative | **984,316** | 622,991 |
| Marketing | **730,309** | 825,392 |
| Research and development | **698,957** | 590,772 |
| Stock option-based compensation (Note 12b) | **252,576** | 345,368 |
| Amortization of property, plant and equipment | **100,257** | 71,723 |
| Amortization of intangible assets | **40,340** | 17,696 |
| Write-off of intangible assets | **-** | 12,209 |
| Amortization of deferred financing fees | **-** | 9,938 |
| Financial income | **(58,213)** | (8,861) |
| | **2,748,542** | 2,487,228 |
| Loss before income taxes | **(1,336,688)** | (2,313,018) |
| Income taxes (Note 18) | **-** | - |
| **Net loss and comprehensive loss** | **(1,336,688)** | (2,313,018) |
| Net loss per share (Note 13) | | |
| Basic | **(0.04)** | (0.08) |
| Diluted | **(0.04)** | (0.08) |

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

Additional information on the Statements of Loss is presented in Note 22.

# Opsens Inc.

## Consolidated Statements of Deficit
## Years ended August 31, 2008 and 2007

| | **2008** | 2007 |
|---|---|---|
| | **$** | $ |
| **Balance at beginning** | **4,587,145** | 1,757,494 |
| Changes in accounting policies (Note 2) | **(73,687)** | - |
| Net loss | **1,336,688** | 2,313,018 |
| Issuance expenses on equity component | **532,340** | 516,633 |
| **Balance at end** | **6,382,486** | 4,587,145 |

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

# Opsens Inc.
Consolidated Balance Sheets
August 31, 2008 and 2007

| | 2008 | 2007 |
|---|---|---|
| | $ | $ |
| **Assets** | | |
| Current | | |
| Cash and cash equivalents (Note 14) | **3,742,520** | 1,839,379 |
| Accounts receivable (Note 5) | **743,951** | 120,697 |
| Income tax credits receivable (Note 18) | **183,950** | 177,355 |
| Work in progress | **237,551** | - |
| Inventories (Note 6) | **453,271** | 372,650 |
| Prepaid expenses | **100,454** | 32,593 |
| | **5,461,697** | 2,542,674 |
| Property, plant and equipment (Note 7) | **554,180** | 339,293 |
| Intangible assets (Note 8) | **159,768** | 142,444 |
| Deferred financing costs | **-** | 4,336 |
| Goodwill | **676,574** | - |
| | **6,852,219** | 3,028,747 |
| **Liabilities** | | |
| Current | | |
| Accounts payable and accrued liabilities (Notes 10 and 16) | **547,204** | 320,960 |
| Deferred revenue | **-** | 20,000 |
| Current portion of long-term debt (Note 11) | **223,265** | 200,315 |
| | **770,469** | 541,275 |
| Long-term debt (Note 11) | **252,380** | 498,927 |
| | **1,022,849** | 1,040,202 |
| **Shareholders' equity** | | |
| Share capital (Note 12a) | **10,257,259** | 5,332,483 |
| Stock-options (Note 12b) | **554,528** | 408,701 |
| Warrants (Note 12c) | **1,400,069** | 834,506 |
| Deficit | **(6,382,486)** | (4,587,145) |
| | **5,829,370** | 1,988,545 |
| | **6,852,219** | 3,028,747 |

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

References:

Commitments (Note 15)
Contractual guarantees (Note 16)
Subsequent events (Note 24)

Approved by the Board

*Signed [Mario Jacob]* Director

*Signed [Pierre Carrier]* Director

# Opsens Inc.

Consolidated Statements of Cash Flows
Years ended August 31, 2008 and 2007

| | **2008** | 2007 |
|---|---|---|
| | **$** | $ |
| **Operating activities** | | |
| Net loss | **(1,336,688)** | (2,313,018) |
| Adjustments for: | | |
| Amortization of property, plant and equipment | **100,257** | 71,723 |
| Amortization of intangible assets | **40,340** | 17,696 |
| Write-off of intangible assets | **-** | 12,209 |
| Amortization of deferred financing costs | **-** | 9,938 |
| Premium payable to *Canada Economic Development* | **16,799** | 10,908 |
| Premium payable to *Investissement Québec* | **8,520** | 8,520 |
| Stock option-based compensation | **252,576** | 345,368 |
| Changes in non-cash operating working capital items (Note 14) | **(811,991)** | 185,878 |
| | **(1,730,187)** | (1,650,778) |
| **Investing activities** | | |
| Acquisition of property, plant and equipment | **(315,144)** | (142,300) |
| Disposal of property, plant and equipment | **-** | 20 |
| Acquisition of intangible assets | **(37,664)** | (73,661) |
| Cash and cash equivalents paid in business combination (Note 4) | **(168,647)** | - |
| | **(521,455)** | (215,941) |
| **Financing activities** | | |
| Increase in deferred financing costs | **-** | (48,164) |
| Increase in long-term debt | **72,966** | 106,900 |
| Reimbursement of demand loan | **-** | (204,824) |
| Reimbursement of long-term debt | **(243,859)** | (183,615) |
| Issuance of equity component | **4,741,011** | 3,495,000 |
| Issuance of equity component expenses | **(415,335)** | (341,335) |
| Cash and cash equivalents acquired in the qualifying transaction (Note 1) | **-** | 558,716 |
| | **4,154,783** | 3,382,678 |
| Increase in cash and cash equivalents | **1,903,141** | 1,515,959 |
| Cash and cash equivalents at beginning | **1,839,379** | 323,420 |
| Cash and cash equivalents at end | **3,742,520** | 1,839,379 |

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

Additional information is presented in Note 14.

## 1. Description of business

During the year ended August 31, 2007, the Company, formerly known as DCB Capital Inc., changed its name to Opsens Inc. following the completion of a qualifying transaction.

The Company issued from the qualifying transaction specializes in developing and manufacturing technical and scientific instruments.

This transaction constitutes a qualifying transaction as per Policy 2.4 of the TSX Venture Exchange Corporate Finance Manual. The transaction was realized by means of an acquisition followed by a merger carried out on October 3, 2006.

As part of the qualifying transaction and according to the rules of the TSX Venture Exchange, DCB Capital Inc. issued 20,000,000 of its common shares to shareholders holding Opsens Inc. class A shares in exchange for the acquisition of all Opsens Inc. class A shares, at the price of $0.40 per common share.

For accounting and disclosure purposes, this type of share exchange constitutes a reverse takeover, under which Opsens Inc. is deemed to have issued shares in consideration for the net assets of DCB Capital Inc. Consequently, the control of DCB Capital Inc. was transferred to the shareholders of Opsens Inc.

In compliance with EIC-10 of the CICA Handbook, this reverse takeover constitutes an equity transaction rather than a business combination. Consequently, no goodwill or intangible assets are accounted for, and the company's financial statements present the continuance of Opsens Inc.

Under the terms of the qualifying transaction, the net value of the acquired assets of DCB Capital Inc. is as follows:

| | October 3, 2006 |
|---|---|
| | $ |
| Cash and cash equivalents ($558,716) and other current assets | 576,735 |
| Demand loan receivable from Opsens Inc. | 250,000 |
| Liabilities | (18,432) |
| Net value | 808,303 |

The consideration issued as part of this business combination is allocated as follows:

| | October 3, 2006 |
|---|---|
| | $ |
| 20,000,000 common shares | 744,970 |
| 333,333 stock options revalued at fair value as of October 3, 2006 | 63,333 |
| | 808,303 |

## 2. Changes in accounting policies

*Impact of adopting the new Financial instruments standards*

On September 1, 2007, the Company adopted the new accounting standards issued by the Canadian Institute of Chartered Accountants ("CICA") regarding Financial instruments- Recognition and measurement (Section 3855), Financial Instruments – Disclosure and presentation (Section 3861), Hedges (Section 3865) and Comprehensive Income (section 1530). Information released prior to September 1, 2007 was not restated.

On September 1, 2007, the Company made the following adjustments in order to conform to the new accounting standards:

| | Amount |
|---|---:|
| | $ |
| *Decrease* | |
| Balance Sheet | |
| Assets | |
| Deferred financing costs | 4,336 |
| Liabilities | |
| Long-term debt | 78,023 |
| Statement of deficit | |
| Change in accounting policies | 73,687 |

*Financial Instruments – Recognition and measurement*

*Short-term investments*

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

The fair value of financial instruments represents the amount at which the financial instruments could be traded knowingly and voluntarily between the parties involved. The fair value is based on market prices (buyer-seller prices) in an active market. If this is not the case, the fair value is based on market prices prevailing for instruments with similar risk profiles or characteristics or on internal or external valuation models that use observable market data.

*Derivative financial instruments*

Derivative financial instruments must be recorded at fair value unless they are specifically designated in an effective hedging relationship, and the change in fair value will be recorded directly in net earnings.

*Long-term debt*

The long-term debt is classified as "other liabilities" and is recorded at amortized cost.

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

*Other comprehensive income (loss)*

According to the new accounting standards, the Company must present a comprehensive income statement. Since the Company has classified all of its financial instruments as financial instruments "held for trading", except for the long-term debt which is classified as "other liabilities", there is no element to be disclosed distinctively in other comprehensive income. Consequently, the net earnings (net loss) also represents the results of the comprehensive income (loss).

## 3. Accounting policies

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("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*

Raw materials are valued at the lower of cost and replacement cost, and finished goods are valued at the lower of cost and the net realizable value. Cost is determined using the moving average method.

*Property, plant and equipment and intangible assets*

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% |
| Automative 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% |

Service contracts are intangible assets with definite useful life which were accounted for at cost. Amortization was based on the fair value of the contracts on the total value of the contracts portfolio acquired. The service contracts were fully amortized during the year.

*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 of changes in circumstances indicate a potential impairment in value. The excess of the carrying value over the fair value is recorded in loss.

**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.

*Deferred financing costs*

Deferred financing costs comprise legal expenses and expenses incurred for the issuance of long-term debt and expenses incurred to complete the qualifying transaction and the related placement. Until August 31, 2007, they were amortized using the straight-line method over the term of the corresponding debt. Since September $1^{st}$, 2007, the amounts paid are amortized using and presented against corresponding debt (Note 2). Expenses related to the qualifying transaction are applied against shareholders' equity.

*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.

*Loss per share*

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

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

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

**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*

Revenues related to product sales are recognized when convincing evidence of an arrangement exists, delivery has occurred, the price to the buyer is fixed or determinable, and collection is reasonably guaranteed.

Sensor installation services, contract revenues earned over a long period, and partnership 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.

*Financial instruments*

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

The long-term debt is classified as “other liabilities” and is recorded at amortized cost.

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

**3. Accounting policies** (continued)

*Use of estimates*

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

*Future accounting changes*

The CICA has issued new accounting standards:

a) Section 3031, Inventories. This Section 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. Management of the Company is a review of the new standard and does not expect the adoption of this standard will have a significant impact on the Company's consolidated financial statements.

b) Section 3862, Financial Instruments – Disclosures. This section describes the required disclosures related to the significance of financial instruments on the Company's financial position and performance and the nature and extent of risks arising for financial instruments to which the Company is exposed and how the Company manages those risks. This Section complements the principles of recognition, measurement, and presentation of financial instruments of Section 3855, Financial Instruments – Recognition and Measurement, Section 3863, Financial Instruments – Presentation and Section 3865, Hedges. The Company's management does not expect the adoption of this standard will have an impact on the consolidated financial statements as the standard relates to note disclosure.

c) Section 3863, Financial Instruments – Presentation. This section establishes standards for presentation of financial instruments and non-financial derivatives. It replaces standards of Section 3861, Financial Instruments – Disclosure and Presentation. The Company does not expect the adoption of this standard will have an impact on the consolidated financial statements as the standard relates to note disclosure.

d) Section 1535, Capital Disclosures. This section establishes standards for disclosing information about an entity's capital and how it is managed to enable users of financial statements to evaluate the entity's objectives, policies and procedures for managing capital. The Company does not expect the adoption of this standard will have an impact on the consolidated financial statements as the standard relates to note disclosure.

The above standards will be effective for the Company as of September 1, 2008.

e) 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 will adopt 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 does not expect that the adoption of this new Section will have a material impact on its consolidated financial statements.

**3. Accounting policies** (continued)

*Future accounting changes* (continued)

International Financial Reporting Standards

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

The Company has not begun to assess the future impact of these new standards on its consolidated financial statements.

**4. Business acquisition**

On December 11, 2007, the Company concluded the acquisition of all outstanding shares of Inflo Solutions Inc. ("Inflo"), a company dedicated to the design and installation of reservoir surveillance solutions based on optical and conventional sensors to the oil and gas market. The purchase price is comprised of 1,199,997 Opsens common shares and $120,000 cash. At the closing, 510,000 shares out of the first 600,000 shares were paid into escrow and will be released over a 48-month period. The balance of the shares and the cash, represented by a series of promissory notes, have also been paid in escrow, to be released or cancelled, as applicable, over a 48-month period ending December 11, 2011, following the achievement or non achievement of certain performance milestones. The Company has also committed to invest up to $350,000 into the working capital of Inflo during the 48-month period following the acquisition. The shares issued at closing are subject to a statutory 4-month hold period ending on April 12, 2008.

On April 8, 2008, a milestones had been achieved which had effect to release a series of promissory notes for a total value of $60,000. This amount had been booked as goodwill.

On August 31, 2008, the Company renegotiated the agreement made on December 11, 2007. The revised agreement eliminated the possibility of cancelling 499,997 shares against an escrow ending on December 11, 2011.

**4. Business acquisition** (continued)

The acquisition has been accounted for using the purchase method, and the results of operations have been included in the consolidated financial statements of the company from the date of acquisition. The purchase price allocation shown below is based on the fair value estimate made by the company :

| | Amount |
|---|---|
| | $ |
| **Assets** | |
| Cash | 6,029 |
| Current assets | 42,024 |
| Service contracts | 20,000 |
| | 68,053 |
| **Liabilities** | |
| Current liabilities | 44,377 |
| **Net identifiable assets acquired** | 23,676 |
| **Goodwill*** | 676,574 |
| **Purchase price** | 700,250 |
| **Less** : | |
| Cash acquired | 6,029 |
| Issuance of shares in connection with the acquisition | 525,574 |
| **Net cash used for the acquisition** | 168,647 |

* Goodwill is not deductible for income taxes calculation.

On December 11, 2007, the company Inflo changed its name for Opsens Solutions Inc. ("Opsens Solutions").

**5. Accounts receivable**

| | **2008** | 2007 |
|---|---|---|
| | **$** | $ |
| Trade | **729,406** | 73,929 |
| Allowance for doubtful accounts | **(14,031)** | - |
| Taxes receivable | **28,576** | 33,824 |
| Others | **-** | 12,944 |
| | **743,951** | 120,697 |

## 6. Inventories

| | **2008** | 2007 |
|---|---|---|
| | **$** | $ |
| Raw materials | **380,885** | 299,007 |
| Finished goods | **72,386** | 73,643 |
| | **453,271** | 372,650 |

## 7. Property, plant and equipment

| | | | **2008** |
|---|---|---|---|
| | **Cost** | **Accumulated Amortization** | **Net Book Value** |
| | **$** | **$** | **$** |
| Office furniture and equipment | **52,723** | **24,666** | **28,057** |
| Leased office furniture and equipment | **12,535** | **3,225** | **9,310** |
| Production equipment | **88,020** | **25,018** | **63,002** |
| Leased Automative equipment | **16,500** | **2,200** | **14,300** |
| Research and development equipment, net of income tax credits of $23,834 | **582,134** | **202,577** | **379,557** |
| Research and development computer equipment, net of income tax credits of $3,078 | **24,270** | **15,649** | **8,621** |
| Computer equipment | **74,298** | **27,713** | **46,585** |
| Leasehold improvements | **12,905** | **8,157** | **4,748** |
| | **863,385** | **309,205** | **554,180** |

| | | | 2007 |
|---|---|---|---|
| | Cost | Accumulated Amortization | Net Book Value |
| | $ | $ | $ |
| Office furniture and equipment | 44,942 | 16,276 | 28,666 |
| Leased office furniture and equipment | 12,535 | 2,128 | 10,407 |
| Production equipment | 51,267 | 14,153 | 37,114 |
| Research and development equipment, net of income tax credits of $23,834 | 360,109 | 145,139 | 214,970 |
| Research and development computer equipment, net of income tax credits of $3,078 | 20,331 | 12,304 | 8,027 |
| Computer equipment | 52,158 | 18,182 | 33,976 |
| Leasehold improvements | 6,900 | 767 | 6,133 |
| | 548,242 | 208,949 | 339,293 |

## 8. Intangible assets

| | | | **2008** |
|---|---|---|---|
| | **Cost** | **Accumulated Amortization** | **Net Book Value** |
| | **$** | **$** | **$** |
| Indefinite lives | | | |
| Trademarks | **200** | **-** | **200** |
| Limited lives | | | |
| Patents | **172,036** | **30,445** | **141,591** |
| Software, net of income tax credits of $1,518 | **41,578** | **23,601** | **17,977** |
| | **213,814** | **54,046** | **159,768** |

| | | | 2007 |
|---|---|---|---|
| | Cost | Accumulated Amortization | Net Book Value |
| | $ | $ | $ |
| Indefinite lives | | | |
| Trademarks | 200 | - | 200 |
| Limited lives | | | |
| Patents | 139,260 | 16,772 | 122,488 |
| Software, net of income tax credits of $1,518 | 36,690 | 16,934 | 19,756 |
| | 176,150 | 33,706 | 142,444 |

Due to the abandonment of a patent application, an impairment loss of $12,209 was recognized as of August 31, 2007.

## 9. 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.

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%.

**10. Accounts payable and accrued liabilities**

| | **2008** | 2007 |
|---|---|---|
| | **$** | $ |
| Suppliers | **527,204** | 304,648 |
| Provision for warranty | **20,000** | 16,312 |
| | **547,204** | 320,960 |

**11. Long-term debt**

| | **2008** | 2007 |
|---|---|---|
| | **$** | $ |
| 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 2011, 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 | **126,330** | 170,610 |
| *Investissement Québec* loan of an authorized amount of $213,000, bearing interest at the weekly variable rate plus 3%, repayable in monthly principal instalments of $5,071 and a monthly premium of $1,014 starting in March 2006, maturing in September 2009, secured by a first-rank movable hypothec in the amount of $255,750 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 credit, up to a maximum amount of $213,000 | **58,417** | 129,017 |
| Amounts carried forward | **184,747** | 299,627 |

**11. Long-term debt** (continued)

| | **2008** | 2007 |
|---|---|---|
| | **$** | $ |
| Amounts carried forward | **184,747** | 299,627 |
| Contribution repayable to *Canada Economic Development* for a maximum amount of $100,000, repayable by annual royalties equal to 4% of gross annual sales effective September 1, 2004 up to 150% of the contribution paid. The total amount of the contribution should be repaid no later than November 1, 2011. The first repayment is due and payable effective November 1, 2006. Subsequent payments are due annually | **-** | 33,121 |
| Contributions repayable to *Canada Economic Development* for a maximum amount of $297,835, repayable in five equal and consecutive annual instalments effective February 1, 2008 for the first contribution and June 11, 2009 for the second | **191,203** | 331,036 |
| 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 May 2009, secured by a first-rank movable hypothec in the amount of $119,340 on specific property | **77,132** | 25,160 |
| 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 | **2,964** | 3,783 |
| 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 | **5,663** | 6,515 |
| 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 | **13,936** | - |
| | **475,645** | 699,242 |
| Current portion | **223,265** | 200,315 |
| | **252,380** | 498,927 |

**11. Long-term debt** (continued)

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

| | Obligations – Capital lease | | | Other debt | Debt and principal portion of capital lease |
|---|---|---|---|---|---|
| | Total payments | Imputed interest | Principal payments | | |
| | $ | $ | $ | $ | $ |
| 2009 | 7,363 | 2,094 | 5,269 | 217,996 | 223,265 |
| 2010 | 7,363 | 1,535 | 5,828 | 82,440 | 88,268 |
| 2011 | 7,258 | 901 | 6,357 | 75,932 | 82,289 |
| 2012 | 5,296 | 187 | 5,109 | 38,479 | 43,588 |
| 2013 | - | - | - | 38,235 | 38,235 |

Under the terms and conditions of the agreement on long-term debt with *Investissement Québec* and its financial institution, the Company is subject to certain covenants with respect to maintaining minimum financial ratios.

**12. Share capital, stock-options and warrants**

*a) Share capital*

*Authorized*, unlimited number

Common shares, voting and participating without par value

*Year ended August 31, 2008*

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

Issued and fully paid

| | Number | Amount |
|---|---|---|
| | | $ |
| Balance at beginning of year | 32,628,610 | 5,332,483 |
| Share issuance – Inflo Solutions Inc. (Note 4) | 1,199,997 | 525,574 |
| Share issuance – options exercised | 408,333 | 244,249 |
| Share issuance – warrants exercised i) | 1,483,611 | 1,042,253 |
| Share issuance – Private placement ii) | 4,711,126 | 3,112,700 |
| Balance as at August 31, 2008 | 40,431,677 | 10,257,259 |

**12. Share capital, stock-options and warrants**

*a) Common share capital* (continued)

*i) Warrants exercised*

During the year ended August 31, 2008, 1,483,611 warrants entitling their holders to acquire one common share of the Company at an average price of $0.56 per share were exercised for a total amount of $834,611. The book value of the exercised warrants was transferred to Share capital for an amount of $207,642.

*ii) Private Placement*

On April 8, 2008, the Company realized a private placement of 4,711,126 units at a price of $0.80 per unit for gross proceeds of $3,768,901. 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 $1.10 for a period of 24 months following the closing of the Offering, or in the event the 20-day volume weighted average price of the common shares of Opsens trade, on the TSX Venture Exchange, is at or above $1.50 during this same 24-month period. Then, the warrants must be exercised or will expire 30 calendar days after notice of such event is received or deemed received by the warrant holders. The notice must be given within the 10-working-day period following the event date.

Opsens paid to the Agents a cash commission equal to $263,823 and issue broker compensation warrants entitling the Agents to purchase 329,779 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. The securities issued pursuant to the Offering will be subject to a 4-month restricted period expiring on August 9, 2008.

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

*a) Common share capital* (continued)

*Year ended August 31, 2007*

Following the transaction described in Note 1 and in accordance with EIC-10, the capital structure appearing is that of DCB Capital Inc. and the dollar amounts presented are that of Opsens Inc.

Outstanding shares and the changes occurred during the year ended August 31, 2007 are as follows:

| | Number | Amount |
|---|---|---|
| | | $ |
| Balance as at August 31, 2006 | | 1,082,372 |
| Reclassification of Class A common shares retractable at the option of the shareholder following the cancellation of the retraction right iii) | | 773,767 |
| | 4,346,666 | 1,856,139 |
| Common shares issued pursuant to the reverse takeover iv) | 20,000,000 | 744,970 |
| Share issuance – Private placement v) | 2,600,000 | 754,000 |
| Share issuance – Private placement vi) | 2,937,500 | 851,875 |
| Share issuance – Private placement vii) | 2,444,444 | 912,499 |
| Share issuance – warrants exercised viii) | 300,000 | 213,000 |
| Balance as at August 31, 2007 | 32,628,610 | 5,332,483 |

*iii) Termination of the shareholders' agreement and cancellation of the retraction right*

Immediately preceding the share exchange, the agreement between shareholders of Opsens Inc. was terminated and the retraction right of the shares was also cancelled. Consequently, the Class A retractable shares retractable at the option of the shareholder, in the amount of $773,767, presented in the liabilities of Opsens Inc. as at August 31, 2006 were reclassified in equity.

*iv) Qualifying transaction*

As part of the qualifying transaction and according to the rules of the TSX Venture Exchange, DCB Capital Inc. issued 20,000,000 of its common shares to shareholders holding Opsens Inc. class A shares in exchange for the acquisition of all Opsens Inc. class A shares, at the price of $0.40 per common share.

*v) Private placement – October 3, 2006*

On October 3, 2006, the Company realized a private placement of 2,600,000 units at a price of $0.40 per unit, for a total of $1,040,000. Each unit is made up of one common share and one share purchase warrant of the Company. Each purchase warrant entitles its holder to acquire one common share of the Company at a price of $0.60 per share no later than October 3, 2008. The underlying securities for the units issued as part of this placement are subject to a holding period until February 4, 2007.

*vi) Private placement – October 11, 2006*

On October 11, 2006, the Company realized a private placement of 2,937,500 units at a price of $0.40 per unit, for a total of $1,175,000. Each unit is made up of one common share and one share purchase warrant of the Company. Each purchase warrant entitles its holder to acquire one common share of the Company at a price of $0.60 per share no later than October 11, 2008. The underlying securities for the units issued as part of this placement are subject to a holding period until February 12, 2007.

**12. Share capital, stock-options *and warrants*** (continued)

*a) Common share capital* (continued)

*vii) Private placement – December 5, 2006*

On December 5, 2006, the Company realized a private placement of 2,444,444 units at a price of $0.45 per unit, for a total of $1,100,000. Each unit is made up of one common share and a half share purchase warrant of the Company. Each complete warrant entitles its holder to acquire one common share of the Company at a price of $0.55 per share no later than December 5, 2008. The underlying securities for the units issued as part of this placement are subject to a holding period until April 6, 2007. Pursuant to an underwriting agreement entered into with Desjardins Securities Inc. dated October 3, 2006, the Company paid a lump sum of $50,000 in fees.

*viii) Warrants exercised*

During the year ended August 31, 2007, 300,000 warrants entitling their holders to acquire one common share of the Company at a price of $0.60 per share were exercised for a total amount of $180,000. The book value of the exercised warrants was transferred to Share Capital in the amount of $33,000.

*b) Stock options*

The Company changed the stock option plan on January 22, 2008. 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.

The compensation expense in regards to the stock option plan included in the administrative expenses for the year ended August 31, 2008 is $252,576 ($345,368 for the year ended August 31, 2007).

**12. 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 2.98% and 4.15% |
| Expected volatility | Between 70% and 95% |
| Expected dividend yield on shares | - % |
| Duration | 5 years |
| Fair value per option at the grant date | Between \$0.22 and \$0.70 |

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, 2007 and 2008 are as follows:

| | **2008** | | 2007 | |
|---|---|---|---|---|
| | **Number of options** | **Weighted average exercise price** | Number of options | Weighted average exercise price |
| | | **$** | | $ |
| Outstanding at beginning of year | **2,033,333** | **0.53** | - | - |
| Options assumed following the qualifying transaction with DCB Capital Inc. | **-** | **-** | 333,333 | 0.30 |
| Options granted | **912,500** | **0.77** | 1,700,000 | 0.57 |
| Options cancelled | **(295,000)** | **0.58** | - | - |
| Options exercised | **(408,333)** | **0.34** | - | - |
| Outstanding at end of the year | **2,242,500** | **0.65** | 2,033,333 | 0.53 |
| Options exercisable at end of the year | **765,000** | **0.59** | 833,333 | 0.46 |

**12. 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, 2008:

| Exercise price | Number of outstanding stock options | Number of exercisable stock options | Weighted average residual duration (years) |
|---|---|---|---|
| $ | | | |
| 0.45 | 50,000 | 12,500 | 3.26 |
| 0.50 | 1,050,000 | 562,500 | 3.09 |
| 0.60 | 20,000 | - | 4.99 |
| 0.72 | 500,000 | - | 4.28 |
| 0.80 | 150,000 | 100,000 | 3.91 |
| 0.87 | 272,500 | 40,000 | 4.64 |
| 0.95 | 200,000 | 50,000 | 3.62 |
| | 2,242,500 | 765,000 | 3.67 |

*c) Warrants*

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

| | Units issued | Commission paid |
|---|---|---|
| Exercisable price | $0.55 and $0.60 | $0.40 and $0.80 |
| Risk-free interest rates | From 2.72% to 4.04% | From 2.72 to 4.04% |
| Expected volatility | From 70% to 76% | From 70% to 76% |
| Expected dividend yield on shares | - % | - % |
| Duration | 2 years | 2 years |
| Fair value by warrant | $0.11, $0.15 and $0.28 | $0.16 and $0.35 |

**12. 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, 2007 and 2008 are as follows:

| | **2008** | | 2007 | |
|---|---|---|---|---|
| | **Number of warrants** | **Weighted average exercise price** | Number of warrants | Weighted average exercise price |
| | | **$** | | $ |
| Outstanding at beginning of year | **6,902,722** | **0,58** | - | - |
| Warrants issued on October 3, 2006 in relation with the private placement (Note 12 a)v) | **-** | **-** | 2,600,000 | 0.60 |
| | | | 208,000 | 0.40 |
| Warrants issued on October 10, 2006 in relation with the private placement (Note 12 a)vi) | **-** | **-** | 2,937,500 | 0.60 |
| | | | 235,000 | 0.40 |
| Warrants issued on December 5, 2006 in relation with the private placement (Note 12 a)vii) | **-** | **-** | 1,222,222 | 0.55 |
| Warrants exercised | **-** | **-** | (300,000) | 0.60 |
| Warrants exercised during the period (Note 12a)*i)* | **(1,483,611)** | **0.56** | - | - |
| Warrants issued, private placement (Note 12a)*ii)* | **2,355,563** | **1.10** | - | - |
| Warrants issued, private placement (Note 12a)*ii)* | **329,779** | **0.80** | - | - |
| Outstanding at end of year | **8,104,453** | **0.74** | 6,902,722 | 0.58 |
| Warrants exercisable at end of year | **8,104,453** | **0,74** | 6,902,722 | 0.58 |

The table below provides information on the outstanding warrants as at August 31, 2008:

| Exercise price | Number of outstanding warrants | Number of exercisable warrants | Weighted average residual duration (years) |
|---|---|---|---|
| $ | | | |
| 0.40 | 443,000 | 443,000 | 0.10 |
| 0.55 | 111,111 | 111,111 | 0.26 |
| 0.60 | 4,865,000 | 4,865,000 | 0.10 |
| 0.80 | 329,779 | 329,779 | 1.60 |
| 1.10 | 2,355,563 | 2,355,563 | 1.60 |
| | 8,104,453 | 8,104,453 | 0.60 |

## 13. Loss per share

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

| | **2008** | 2007 |
|---|---|---|
| | **$** | $ |
| **Numerator** | | |
| Net loss | **(1,336,688)** | (2,313,018) |
| Amount available for calculating the loss per share | **(1,336,688)** | (2,313,018) |
| **Denominator** | | |
| Number of shares | | |
| Weighted average number of shares outstanding | **36,327,185** | 30,819,163 |
| Dilutive effect of stock options and warrants | **-** | - |
| Weighted average number of shares outstanding on diluted basis | **36,327,185** | 30,819,163 |
| **Amount per share** | | |
| Net loss per share | | |
| Basic | **(0.04)** | (0.08) |
| Diluted | **(0.04)** | (0.08) |

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 $0.30, $0.40, $0.45, $0.50, $0.55, $0.60, $0.72, $0.80 and $0.87, would have been dilutive and would have resulted in the addition of 2,434,422 shares to the weighted average number of shares outstanding used in the diluted earnings per share calculation for year ended August 31, 2008 (1,544,293 as at August 31, 2007).

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

| | **2008** | 2007 |
|---|---|---|
| | **$** | $ |
| *Changes in non-cash operating working capital items* | | |
| *(net of effects of the business acquisition)* | | |
| Accounts receivable | **(584,425)** | 69,113 |
| Income tax credits receivable | **(6,595)** | 299,795 |
| Inventories | **(78,450)** | (192,869) |
| Work in progress | **(237,551)** | - |
| Prepaid expenses | **(66,837)** | (12,770) |
| Accounts payable and accrued liabilities | **181,867** | 22,609 |
| Deferred revenue | **(20,000)** | - |
| | **(811,991)** | 185,878 |
| *Cash and cash equivalents* | | |
| Cash | **147,574** | 84,063 |
| Short-term investments | **3,594,946** | 1,755,316 |
| | **3,742,520** | 1,839,379 |
| *Other information* | | |
| Interests paid | **56,283** | 56,343 |

*Non-cash transactions*

The Company concluded the acquisition of all outstanding shares of Inflo Solutions Inc. ("Inflo") by the issuance of 1,199,997 Opsens common shares with a book value of $525,574.

On April 8, 2008, Opsens issued broker compensation warrants entitling the Agents to purchase 329,779 common shares of Opsens at an exercise price of $0.80 per share for a book value of $117,005.

## 15. Commitments

*Lease*

The Company leases offices under an operating lease expiring on January 31, 2014. This agreement is renewable for an additional five-year period. Future rent, without considering the escalation clause, will amount to $640,604.

Opsens Solutions rents an office in Alberta with respect to a letter agreement. A lease should be signed in the next quarter in order to finalize a verbal commitment. In case the lease is not signed, the company is committed to pay the monthly lease payments until September 30, 2008. As a result, future lease payments will amount to $4,478.

Opsens Solutions rents a vehicle under an operating lease expiring in November 2010. Future rent payments will amount to $18,945.

The Company is committed to purchase an equipment for $62,885.

Future payments for the leases and other commitments, totalizing $1,068,241, required in each of the next five years are as follows:

| | $ |
|---|---:|
| 2009 | 372,239 |
| 2010 | 214,443 |
| 2011 | 184,628 |
| 2012 | 121,023 |
| 2013 | 121,523 |
| Thereafter | 54,385 |

*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.

## 16. 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, 2008, the Company recognized an expense of $3,688 ($4,609 for the year ended August 31, 2007) for guarantees. A provision for $20,000 ($16,312 as at August 31, 2007) 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.

## 17. Government assistance

Under an agreement reached with 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 hiring an employee and for training. During the year ended August 31, 2008, the Company received a cash contribution of $4,699 which was recorded against marketing expenses.

During the year ended August 31, 2007, the Company received a cash contribution of $17,315 from Emploi Québec. Of this amount, $12,105 was recorded against research and development expenses and $5,210 against administrative expenses.

## 18. 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:

| | **2008** | 2007 |
|---|---|---|
| | **$** | $ |
| Income tax recovery using the combined federal and provincial statutory tax rate | **(411,847)** | (717,834) |
| Non-deductible expenses | **88,566** | 116,854 |
| Deductible financing fees | **(57,801)** | (46,466) |
| Non-taxable income tax credits | **(18,123)** | (16,684) |
| Losses carried forward | **399,205** | 664,130 |
| Income tax using effective income tax rate | **-** | - |

As at August 31, 2008, the Company has tax losses of approximately $3,186,000 for federal purposes and $3,133,500 for provincial purposes that can be used to reduce future taxable income. These losses expire as follows:

| | Federal | Provincial |
|---|---|---|
| | $ | $ |
| 2009 | 380,000 | 340,000 |
| 2013 | 96,000 | 121,000 |
| 2023 | 483,000 | 463,000 |
| 2024 | 42,000 | 40,000 |
| 2025 | 400 | 400 |
| 2027 | 1,524,000 | 1,508,000 |
| 2028 | 660,600 | 661,100 |
| | 3,186,000 | 3,133,500 |

**18. Income taxes** (continued)

The Company also has undeducted research and development expenses in the amount of $1,747,000 for federal purposes and $2,629,000 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.

*Loss of private company status for purposes of income tax credits for scientific research and experimental development*

Following the qualifying transaction described in Note 1, Opsens has lost its private company status and, consequently, income tax credits for scientific research and experimental development have been reduced by half. Also, the federal government credits are no longer reimbursable, but can be used only to compensate for income taxes otherwise payable.

**19. Income tax credits for scientific research and experimental development**

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

| | **2008** | 2007 |
|---|---|---|
| | **$** | $ |
| Federal | **1,175,000** | 1,048,000 |
| Provincial | **597,000** | 569,000 |

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

| | **2008** | 2007 |
|---|---|---|
| | **$** | $ |
| Federal | **-** | 41,285 |
| Provincial | **158,975** | 190,473 |
| | **158,975** | 231,758 |
| These credits were recorded in research and development expenses in the statements of loss | **158,975** | 231,758 |
| These credits were recorded against the related property, plant and equipment | **-** | - |
| Reimbursable scientific research income tax credits earned | **158,975** | 231,758 |

Reimbursable scientific research income tax credits earned for the year ended August 31, 2008 have not yet been reviewed by the taxation authorities, and the amounts granted could differ from those that have been recorded.

## 20. 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.

| | **2008** | 2007 |
|---|---|---|
| | **$** | $ |
| Management fees paid to a shareholder | **-** | 833 |
| Professional fees to a company controlled by a shareholder and director | **30,000** | 35,000 |
| | **30,000** | 35,833 |

## 21. 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) is specialized in the commercialization and the installation of optical and conventional sensors for the oil and gas industry.

| | **2008** | | | 2007 | | |
|---|---|---|---|---|---|---|
| | **Opsens inc.** | **Opsens Solutions** | **Total** | Opsens inc. | Opsens Solutions | Total |
| | **$** | **$** | **$** | $ | $ | $ |
| External sales | **2,248,817** | **595,422** | **2,844,239** | 813,108 | - | 813,108 |
| Internal sales | **4,000** | **87,094** | **91,094** | - | - | - |
| Amortization of property, plant and equipment | **94,748** | **5,507** | **100,255** | 71,723 | - | 71,723 |
| Amortization of intangible assets | **20,340** | **20,000** | **40,340** | 29,905 | - | 29,905 |
| Financial expenses | **(71,787)** | **13,574** | **(58,213)** | (8,861) | - | (8,861) |
| Net loss | **(1,231,708)** | **(104,980)** | **(1,336,688)** | (2,313,018) | - | (2,313,018) |
| Acquisition of property, plant and equipment | **270,625** | **44,519** | **315,144** | 142,280 | - | 142,280 |
| Acquisition of intangible assets | **37,664** | **-** | **37,664** | 73,661 | - | 73,661 |

## 21. Segmented information (continued)

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

| | **2008** | 2007 |
|---|---|---|
| | **$** | $ |
| Revenue per geographic sector | | |
| Canada | **651,875** | 27,047 |
| United States | **933,916** | 315,883 |
| Germany | **416,805** | 228,538 |
| United Kingdom | **285,465** | 49,994 |
| Other | **556,178** | 191,646 |
| | **2,844,239** | 813,108 |

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, 2008, revenues from three clients represent individually more than 10% of the total revenues of the Company, i.e. approximately 18.09% (Opsens Solutions' reportable segment), 17.62% (Opsens Inc.'s reportable segment) and 13.09% (Opsens Inc.'s reportable segment). For the year ended August 31, 2007, revenues from one client represented 28.11% of the Company's total revenues.

## 22. Additional information to the Statements of Loss

| | **2008** | 2007 |
|---|---|---|
| | **$** | $ |
| Government assistance | **(4,699)** | (17,315) |
| Income tax credits for research and development | **(158,975)** | (231,758) |
| Interest and bank charges | **13,174** | 19,225 |
| Interest on demand loan and long-term debt | **48,964** | 44,195 |
| (Gain) loss on foreign currency translation | **(32,809)** | 14,013 |
| Interest income | **(87,541)** | (86,292) |

## 23. Financial instruments

*Credit risk*

The Company provides credit 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. Two major customers represent 49% of the Company's accounts receivable as at August 31, 2008.

*Interest rate and cash flow risk*

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

*Foreign exchange risk*

The Company realizes certain sales and partnership revenue 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.

*Fair value*

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

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

## 24. Subsequent events

On October 3, 2008, 50,000 warrants entitling its holder to acquire one common share of the Company at a price of $0.40 per share were exercised for an amount of $20,000. The book value of the exercised warrants was transferred to Share Capital in the amount of $8,000.

After year end, 393,000 and 4,865,000 warrants entitling its holder to acquire one common share of the Company at a price of $0.40 and $0.60 per share respectively expired.

In addition, the Company granted to some employees a total of 210,000 stock options with an average exercice price of $0.48 per share.

## 25. Comparative figures

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

# Opsens Inc.

## Shareholder Information

### Directors

Pierre Carrier
*President, Chief Executive Officer, Chairman*

Claude Belleville
*Vice President, Medical Devices, Laboratories & Transformers*

Gaétan Duplain
*Vice President Oil and Gas, President, Opsens Solutions*

Bertrand Bolduc
*Director*

Mario Jacob
*Director*

Jean Rochette
*Director*

Denis M. Sirois
*Director*

### Senior Officers

Pierre Carrier
*President, Chief Executive Officer, Chairman*

Claude Belleville
*Vice President, Medical Devices, Laboratories & Transformers*

Gaétan Duplain
*Vice President Oil and Gas, President, Opsens Solutions*

Louis Laflamme, CA
*Chief Financial Officer, Corporate Secretary*

## Corporate Information

### Head Office

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Website: www.opsens.com

### Investor Relations:

For further information about Opsens Inc. or to be placed on the mailing list for quarterly reports and news releases, please contact Louis Laflamme at the head office address, or louis.laflamme@opsens.com.

### Auditors

Samson Bélair Deloitte & Touche
Quebec QC

### Stock Exchange Listing

Toronto Venture Exchange Trading Symbol: OPS

### Transfer Agent & Registrar

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2001, University Street
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Montreal QC H3A 2A6
Phone: (514) 285-3600

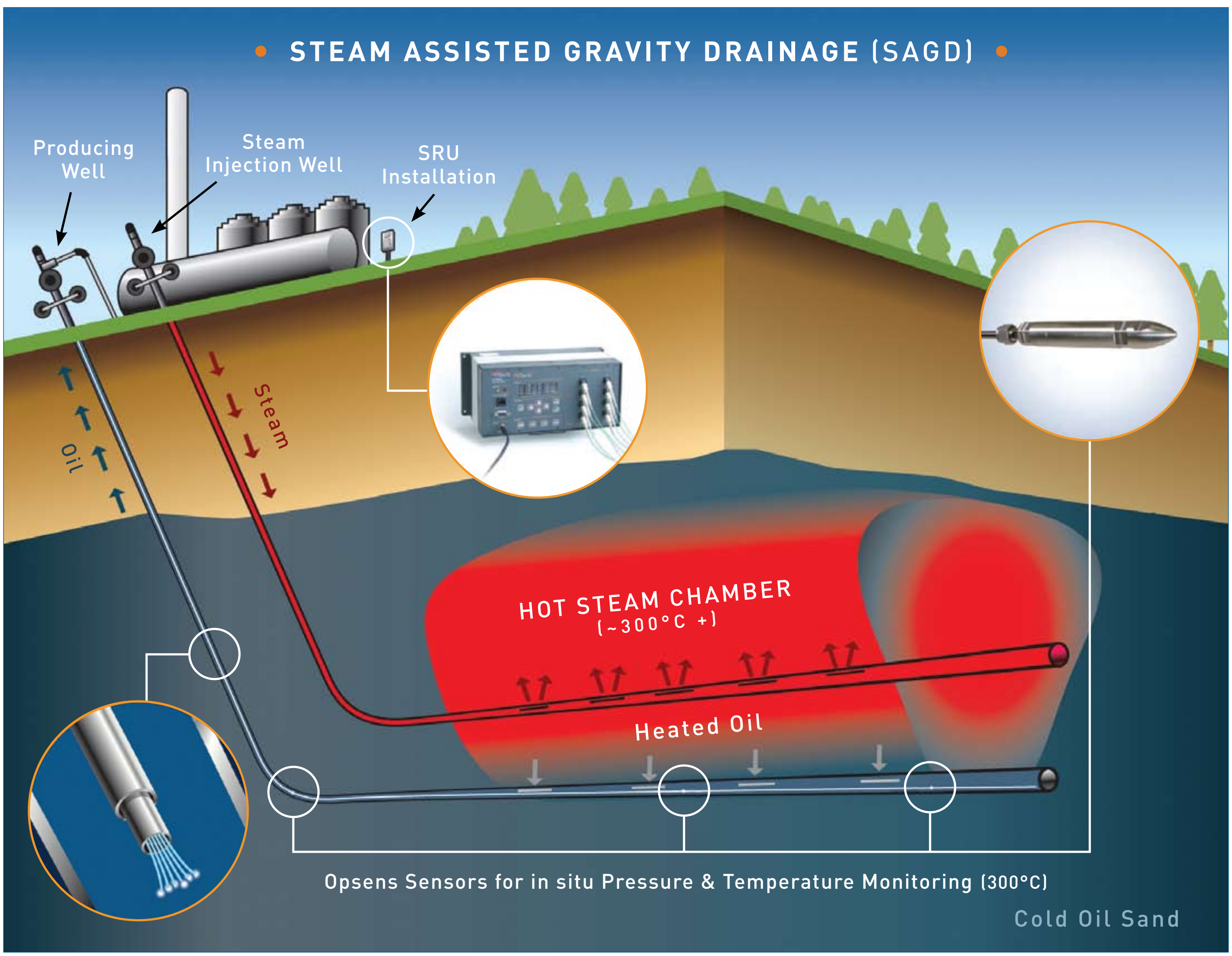
### Annual Meeting of Shareholders

Tuesday, January 20, 2009
10:30 a.m.
l'Hôtel ALT Quebec
Quebec City, QC

# Emerging Leader
## in Oil Sands Measurement

**Opsens** is working on projects in several areas of oil and gas, but its near-term focus is the Western Canadian oil sands market, where it sees a huge opportunity. There are more than 80 active in situ oil sands projects in Alberta, and all the major oil and gas companies are involved.

Steam assisted gravity drainage is the most common process for developing in situ reserves. In SAGD, recovery rates are typically somewhere between 30% and 60%. To optimize recovery rates, the operator needs data on temperature and pressure below the surface directly from the producer well, where temperatures may be between 200 and 300 degrees Celsius. Opsens' OPP-W sensors have been proven to meet that need, measuring pressure and temperature up to 300 degrees Celsius.



# Our Sensors at Work

• OIL & GAS •

Helping operators optimize production in the Western Canadian oil sands.

• MEDICAL DEVICES •

Partners are developing applications in areas such as cardiac assistance and drug manufacturing.

• LABORATORIES & TRANSFORMERS •

Ensuring components that control systems are unaffected by magnetic interference.
Preventing heating in high-power transformers.

opSens

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