



**MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL
RESULTS
FOURTH QUARTER AND FISCAL YEAR ENDED
MAY 31, 2008**

SEPTEMBER 26, 2008

SENSIO TECHNOLOGIES INC.

MANAGEMENT DISCUSSION AND ANALYSIS

This management discussion and analysis of financial results (MD&A) describes SENSIO Technologies Inc.'s operating results and the evolution of its financial situation for the fiscal year ended May 31, 2008, compared to the fiscal year ended May 31, 2007. It also compares the Company's balance sheets as at the same dates. This MD&A, prepared as at September 26, 2008, complements the audited annual financial statements, with which it must be read. The MD&A is meant to help the reader gain a better understanding of SENSIO's activities and the main elements of its financial results. Unless stated otherwise, the terms "Company" and "SENSIO" refer to SENSIO Technologies Inc.

The Company's financial statements are expressed in Canadian dollars and were prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP"). The preparation of the financial statements in accordance with GAAP requires management to make estimates and assumptions that have an impact on the assets and liabilities presented in the financial statements, on the presentation of the future assets and liabilities as at the date of the financial statements, as well as on the amounts of revenues and expenses shown for the period. These estimates are based on management's experience, as well as on other assumptions it deems reasonable given the circumstances. Readers are asked to refer to note 4 of the financial statements for a description of all accounting standards.

The Company's financial statements were reviewed and approved by the audit committee and approved by the board of directors. The following information considers all material events which occurred until September 10, 2008, the date on which the auditor signed its report.

Forward-Looking Statements

This MD&A contains information of a forward-looking nature. These statements reflect the Company's current vision of future events, its management, financial results and financial situation, and can be recognized by the use of such words as "believe", "forecast", "anticipate", "estimate", "expect" and other similar terms or expressions. These statements are based on the information available to the Company, as well as on assumptions deemed reasonable by management. We caution the reader that such forward-looking statements are, by their very nature, subject to risks and actual results may differ substantially from the assumptions and estimates such statements may include. Actual results are affected by a number of factors over which the Company has no control or influence. These factors, which are not limited to the ones described, are listed in the "Risks and Uncertainties" section. Consequently, we recommend that the reader not place undue faith in these forward-looking statements, as future events and actual results may differ considerably from our forecasts. Unless required by law, the Company does not intend to update or review these forward-looking statements following the uncovering of new information, future events or other factors nor will the Company

commit to doing so.

Company Overview

Founded in 1999, SENSIO, headquartered in Montreal, Canada, develops and markets forward-looking stereoscopic technologies designed to offer the most advanced and immersive cinematographic experience available. Its flagship technology, SENSIO®3D, allows the high-quality distribution of 3D content through conventional 2D channels and playback on any display device, including plasma TVs, HDTV and glass-free 3D displays. The Company also developed a new technology with the SENSIO 3D Live! encoder, through which it is now possible to broadcast live 3D content using the broadcaster's 2D distribution channels and equipment. Finally, working with major Hollywood studios and large format 3D film producers, SENSIO has built up one of the world's largest library of 3D movies for the home entertainment market.

Highlights of Fiscal Year ended May 31, 2008

- **Integration of SENSIO3D technology in consumer products**
 - Signature of a contract to integrate the SENSIO3D technology in a television set developed by Kerner Optical Research Development.
 - Sale of eight development kits to integrate the SENSIO3D technology in consumer products.
 - Successful migration of the SENSIO3D technology with BluRay to offer a complete consumer product solution.
 - Proven compatibility of SENSIO3D technology with several television systems, such as SpectronIQ, Mitsubishi, Samsung, HyundaiIT, Miracube, etc.
 - Signature of distribution agreements with two Asian distributors servicing Japan, Korea and Taiwan.
- **Demonstration to executives of the following studios:**
 - Walt Disney Studios
 - Warner Home Video
 - Dreamworks Animation
 - Universal Studios
 - Paramount Pictures
- **Marketing of SENSIO3D encoders/decoders for Live3D events:**
 - Development and implementation of marketing strategy for the Live 3D encoder.
 - Signature of a partnership agreement with AccessIT and IDC for the deployment of a live 3D event broadcasting infrastructure.
 - First encoder and decoder sales following agreement with AccessIT and IDC.

- **Standardization**
 - Agreement with Simplay Labs to enable systems using HDMI standards to automatically recognize and process information coded in SENSIO format.
 - Proposal for the standardization of the SENSIO3D format in DVD format as part of a request from DVD Forum.
 - Participation of SENSIO in BluRay Disc Association activities to promote the adoption of the SENSIO3D format.
 - Participation in the Society of Motion Picture and Television Engineers working group for the standardization of the 3D distribution format.
 - Participation in the foundation of the 3D@Home Consortium, an organization devoted to the promotion and implementation of 3D technologies on the consumer market.
- **Other notable highlights**
 - Completion of a \$3.5M private investment.
 - Delivery of equipment for a contract in Qatar.

Outlook

During the next fiscal year, SENSIO will continue to work on deploying its strategy with a three-pronged approach:

- Integrate its technology in consumer electronic products. To do so, the Company will keep multiplying its efforts towards manufacturers and will make sure it participates in committees that have an influence over groups that are working on format standardization.
- Deployment of its Live3D technology in digital theaters. The Company will use this visibility to spread the word about the SENSIO3D brand, add content to its library and collect revenue following the integration of its technology in movie theater servers.
- Improve its library of titles available in SENSIO format by signing agreements with studios.

In order to meet these objectives, the Company plans to sign distribution agreements with its US and Asian partners for the consumer market, and with a reputable equipment supplier for the theater market. Management believes that this strategy will enable the Company to increase its visibility and will have a direct impact on revenues, the objective being to generate steady income.

Results of Operations

The following table presents certain financial information for the fiscal year and quarter ended May 31, as well as corresponding comparisons.

Main financial data

	Year ended		Quarter ended	
	2008	2007	2008	2007
	May 31 st Audited		May 31st Non-Audited	
Earnings				
Sales	441 844	237 766	262 375	17 429
Gross profit	201 432	105 923	67 408	(5 499)
Net loss	(2 033 769)	(2 328 084)	(562 344)	(532 543)
Net loss per share	(0.0630)	(0.0951)	(0.0166)	(0.0217)
Balance Sheet				
Cash and cash equivalents and Term deposit	1 177 359	235 943	1 177 359	235 943
Total Assets	2 530 787	1 805 989	2 530 787	1 805 989
Long-term debt including instalments on long-term debt	542 057	846 423	542 057	846 423
Total Liabilities	917 889	1 618 525	917 889	1 618 525
Shareholders' Equity	1 612 898	187 464	1 612 898	187 464

Earnings

For the fiscal year ended May 31, 2008, the Company's revenues from product sales totaled \$427,189, compared to \$186,938 in 2007, representing a \$240,251 (128.5%) increase. This performance can be explained by a series of factors described below.

During the fiscal year, the Company sold its first Live 3D encoders/decoders total amount of \$12,554. With the amount of theaters able to integrate the SENSIO technology currently on the rise (currently 1,800 with a projected increase to 5,000 by the end of 2009), management is very optimistic about this market.

The Company also increased its revenues in terms of consumer goods, for an eventual integration of the technology into consumer electronic products. In fact, these revenues rose from \$30,774 in 2007 to \$144,862 for the fiscal year ended May 31, 2008, an increase of \$114,088 (370.7%). These improved figures can be mainly explained by the sale of more development kits, as well as the revenues received following the signature of an integration contract with Kerner Optical Research Development.

SENSIO also delivered equipment following an agreement signed in June 2007. This delivery yielded revenues totaling \$259,877 in 2008, compared to \$134,509 in 2007, representing a \$125,368 (93.2%) increase. The installation related to this contract is scheduled for February 2009.

Revenues from DVD sales went from \$20,906 in 2007 to \$14,655 in 2008, representing a \$6,251 (29.9%) decrease, which is due to less DVDs being available in SENSIO format. However, this will change as soon as the first consumer product integrating the SENSIO technology hits the market and the number of available DVDs will thereby increase.

Since the Company chose to refocus its marketing efforts on the core of its strategy (theaters and consumer market) throughout the years, its revenues generated through consulting services dropped from \$25,900 in 2007 to zero in 2008.

During the fourth quarter of fiscal 2008, the Company's revenues totaled \$262,375, versus \$17,429 for fiscal 2007, representing a \$244,946 (1,405.4%) increase. This variation is due to lower DVD sales (\$6,405 in 2007 vs. \$2,498 in 2008) and the last consulting revenues yielded in the last quarter of 2007 (\$11,024), which was compensated in the fourth quarter of fiscal 2008 by the delivery of equipment following the signature of a contract in June 2007 (\$259,877 in 2008 vs. zero in 2007).

Gross Profit

For the fiscal year ended May 31, 2008, SENSIO's gross profit margin totaled \$201,432 (45.6% of revenues) versus \$105,923 (44.5% of revenues) in fiscal 2007. This gross margin increase is due to the Company's higher product sales volume in 2008.

During the last quarter of fiscal 2008, SENSIO's gross profit totaled \$67,408 (25.7% of revenues), versus a negative profit margin of (\$5,499) in the fourth quarter of fiscal 2007. The gross margin of fiscal 2008's fourth quarter was mainly achieved through profits yielded by the delivery of equipment in the Middle East following the signature of a contract in June 2007. The previous quarter's negative profit margin was due to the termination of a film distribution agreement. SENSIO therefore had to liquidate its inventory and pay a minimum amount to the right holders.

The cost of products sold include: the cost of parts, royalties from sales, as well as general fees, including sub-contracting and professional service fees. Both the percentage and dollar value of the gross profit margin may fluctuate due to several factors, namely the sales volume, royalties and supply cost for certain parts.

Operating Expenses

Research and Development Expenses

Research and development expenses are principally comprised of the salaries of this department's employees, the material required for the development of the projects, the professional fees paid by the Company for the execution of these projects and the amortization of the equipment used as part of the Company's research and development work. Research and development expenses are presented net of investment tax credits.

For the fiscal year ended May 31, 2008, these expenses totaled \$398,962, versus \$535,864 in fiscal 2007, representing a \$136,902 (25.5%) decrease. Excluding a one-time

charge of \$176,000 made in 2007 to pay sub-contracting fees to complete the design needed to integrate its code into an electronic chip, the Company increased its research and development expenses by \$46,962. This is mainly due to higher amortization costs for the research and development equipment (\$37,851).

During the last quarter of fiscal 2008, research and development expenses totaled \$168,050, versus \$131,027 for the same quarter in fiscal 2007, representing a \$37,023 increase. This increase stems from the write-off of two research and development processors (\$10,837), a \$9,463 increase of the amortization expense for research and development equipment and a \$12,025 decrease in research and development income tax credits.

Selling Expenses

The Company's selling expenses include expenses related to personnel, exhibitions, entertainment and traveling as part of business development efforts, professional fees paid to strategic development partners, as well as amortization expenses related to the equipment used by the Company's promotions department.

In fiscal 2008, selling and marketing expenses totaled \$769,083, versus \$923,403 for the previous fiscal year, representing a \$154,320 (16.7%) decrease. Management's strategic realignment to focus its efforts on the marketing of its flagship technologies, namely SENSIO[®]3D, aimed at the consumer market, and Live 3D encoders/decoders, led to the abandonment of the IMMERSIUM product, designed for the theme park market. In 2007, the Company dedicated \$103,967 to promote this product. Salaries for this department dropped by \$107,767. However, development efforts for both flagship technologies increased traveling costs by almost \$25,000 in 2008. This was necessary to hold demonstrations for studios, manufacturers and standardization organizations.

During the fourth quarter ended May 31, 2008, selling expenses totaled \$231,811, versus \$166,137 during the previous quarter. This \$65,674 difference follows the hiring of a product manager, the increase of amortization fees, annual dues paid to standardization organizations, and the increase of traveling expenses to promote the Company's technologies.

Administrative Expenses

Administrative expenses are comprised essentially of expenses related to the administrative staff, professional fees, administrative fees, expenses related to a public company, expenses related to the amortization of the tangible fixed assets used by the administration department as well as expenses related to the amortization of intangible assets.

In fiscal 2008, these expenses totaled \$897,907, compared to \$708,580 in 2007, representing a \$189,327 (26.7%) increase. This difference can be attributed to a few factors:

- In order to better develop its corporate financing strategy, Company management commissioned two sub-contractors, which increased professional fees by \$50,999;

- Equipment upgrades completed in 2007 and relocation to new offices resulted in an increase in rent and insurance fees of almost \$40,000;
- This upgrade also incurred an \$65,000 increase in amortization expenses; and
- The increase of intangible assets in 2007 led to an increase of amortization expenses of over \$50,000.

During the fourth quarter of fiscal 2008, administrative expenses totaled \$169,173, compared to \$165,317 for the same quarter last fiscal year.

Financial Expenses

The Company's financial expenses totaled \$72,450 for the fiscal year ended May 31, 2008, compared to \$42,454 as at May 31, 2007, representing a \$29,996 (70.7%) increase. This increase stems from a non-cash interests charge of \$30,402 related to the balance of the user right fees of JVC's 2D to 3D technology.

During the fourth quarter of fiscal 2008, financial expenses totaled \$22,969, compared to \$30,770 in 2007. This decrease results from loan repayments.

Interest Revenues

Interest revenues of \$81,590 for fiscal 2008 (\$39,231 in 2007) essentially stem from registered investment income that followed the completion of the private placement on August 2, 2007, which provided the Company with a \$3,500,000 cash inflow.

Net Loss

SENSIO reduced its net loss from \$2,328,084 (\$0.0951 per share) for the fiscal year ended May 31, 2007 to \$2,033,769 (\$0.0630 per share) in fiscal 2008, representing a \$294,315 (12.6%) reduction.

The fourth quarter's net loss totaled \$562,344 (\$0.0166 per share), compared to \$594,667 (\$0.0239 per share) for the same period in fiscal 2007.

Treasury Situation and Financing Sources

As at May 31, 2008, the Company cash, cash equivalents and temporary investments totaled \$1,177,359. Cash and cash equivalents are composed of bank balances, while temporary investments include term deposits with a 4.35% interest rate. Following its private placement made on August 2, 2007, SENSIO increased its treasury position by \$3,500,000.

Due to negative cash flows stemming from operating activities and the accumulation of operational losses during the last fiscal years, the Company's capacity to draw cash from its assets and cover its debts depends on its shareholders' and creditors' continued financial support. Management ensures a thorough follow-up on budget estimates to deal with the situation. The Company's ability to secure capital is influenced by certain risks and uncertainties, as detailed in the Risks and Uncertainties section.

Operational Activities

For the fiscal year ended May 31, 2008, operating activities utilized \$1,915,845 in cash flows, compared to \$1,371,642 for the same period last year, representing a \$544,203 increase. This increase is essentially explained by the reduction of the loss of \$294,315, stock option based compensation returns totaling \$84,548, higher amortization expenses for fixed assets and intangible assets of \$137,721 and the variation of working capital items of \$891,191. Two of the working capital items experienced a significant variation:

- From \$171,691 in 2007, the variation of working capital items related to debtors dropped to (\$56,574) in 2008. This variation stems from the increase of accounts receivable and interest income to be received at the end of the fiscal year.
- For the fiscal year ended May 31, 2008, working capital items related to accounts payable and accrued expenses decreased by \$308,094, versus a \$298,111 increase for this item in the previous year. Following the closure of its private placement, the Company reimbursed amounts due to suppliers, management and Board members with whom it had made arrangements before the closing of the placement.

Investment Activities

Cash flows related to investment activities required \$931,172 in cash for the fiscal year ended May 31, 2008, compared to \$1,135,225 for the last fiscal year, representing a \$204,053 decrease. During fiscal 2008, the Company's fixed-term deposit increased by \$834,598, compared to \$225,000 last year. During the fiscal year ended May 31, 2007, the Company had invested heavily in its equipment as part of a major upgrading program, which required investments of \$745,215, compared to \$82,537 in 2008.

Financing Activities

Cash flows generated by financing activities totaled \$2,953,835 for the fiscal year ended May 31, 2008, compared to \$314,477 during the previous year. The main financing activities completed this year are as follows:

- \$3,500,000 financing obtained as part of a private placement that closed on August 2, 2007.
- Share issuance expenses related to the private placement of \$347,755.
- \$109,906 resulting from a stock issuance following the exercise of subscription warrants.
- Repayment of a \$308,316 loan.

Contractual Obligations

As stipulated in a lease ending in November 2013, the Company agreed to pay a total of \$357,245 for its offices. Minimal periodic payments for the next five years are as follows:

2 009	63 578 \$
2 010	64 183 \$
2 011	64 789 \$
2 012	65 394 \$
2 013	66 000 \$
<hr/>	
	323 944 \$
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Financial Situation

Assets

SENSIO's assets totaled \$2,530,787 as at May 31, 2008, compared to \$1,805,989 last year. This increase stems from several factors, which are detailed below.

As at May 31, 2008, SENSIO's cash on hand and short-term investments amounted to \$1,177,359, compared to \$235,943 as at May 31, 2007. This increase essentially stems from the cash received at the closing of the private placement on August 2, 2007 and the exercise of subscription warrants during the fiscal year.

The Company's accounts receivable totaled \$225,360 at the end of the fiscal year, compared to \$168,606 as at May 31, 2007, representing a \$56,754 increase. This variation mainly stems from a \$52,972 increase in accounts receivable in fiscal 2008, a \$37,617 decrease in the research and development tax credit following the implementation of an internal policy at SENSIO to provision only 75% of the amount to be claimed, and the \$37,539 increase in interest income from the fixed-term deposit.

Prepaid expenses increased from \$2,750 as at May 31, 2007 to \$23,221 for fiscal 2008, representing a \$20,471 increase. Subscription fees to the BluRay Association for next year essentially explain this increase.

Liabilities

As at May 31, 2008, the Company's accounts payable totaled \$299,712, compared to \$672,080 for last fiscal year. This significant decrease can be explained by the reimbursement of amounts due to suppliers, management and Board members. These reimbursements had been delayed until the Company closed its private placement.

As at May 31, 2007, the Company posted \$10,062 in deferred revenue, which were reversed on March 15, 2008 following the delivery of equipment related to this contract.

As at May 31, 2008, total liabilities amounted to \$917,889, compared to \$1,618,525 as at May 31, 2007, representing a \$700,636 decrease. This decrease can be explained by the reduction in accounts payable as stated in the previous paragraph and the reimbursement of the long-term debt.

Shareholders' Equity

As at May 31, 2008, the Company's equity capital totaled \$1,612,898 compared to \$187,464 as at May 31, 2007. This variation can be attributed to the factors described in the following paragraphs.

On August 2, 2007, the Company concluded a private placement of 8,750,000 units of the Company at \$0.40 per unit, for a total of \$3,500,000. Every unit is comprised of a common share of the Company at \$0.40 and of a warrant. Every warrant allows the holder to purchase a common share of the Company at \$0.60 each over a 24-month period. Common shares and warrants were subject to a four-month plus one day resale restriction period following the investment date. The focus for the financing round was

put on the institutional sector, which reacted by injecting over 75% of the total amount of the placement. Given such interest, SENSIO decided to increase the original amount by \$1,000,000.

As part of the private placement, the Company issued 8,750,000 subscription warrants allowing holders to subscribe at any time within the 24 months following the closing of the placement that is August 2, 2009, to 8,750,000 common shares at \$0.60 per share. These subscription warrants were subject to a four-month plus one day resale restriction period following the investment date. The fair value of these subscription warrants, evaluated at \$945,173, was charged to the capital stock account and credited to contributed surplus.

As part of this same private placement, in accordance with the agency agreement, the Company issued 522,500 warrants to the agent, allowing it to subscribe, at any time within the 24-month period following the closing of the placement, that is August 2, 2009, to 522,500 common shares at \$0.40 per share. These subscription warrants were subject to a four-month plus one day resale restriction period following the investment date. The fair value of these warrants, evaluated at \$177,142, was charged to the capital stock account and credited to contributed surplus.

In addition, according to an agreement, the Company issued 125,000 stock options to a consultant allowing him to subscribe to 125,000 common shares at \$0.60 per share. These options may be exercised at a rate of one third one year after granting, the second third two years after granting and the last third three years after granting. These stock options mature on August 2, 2012. The fair value of these stock options, evaluated at \$51,881, was charged to the capital stock and credited to contributed surplus.

During the second quarter, the Company also issued 276,819 shares following the exercise of the same number of subscription warrants. Following the granting of its shares, the Company received \$109,906 in cash. An amount of \$2,575 was credited to the capital stock and debited to contributed surplus.

Another factor which contributed to the increase of the Company's equity capital is the variation of contributed surplus of \$191,089 due to the charges related to options issued for directors, management, employees and consultants at various times during the previous fiscal year.

On the date this MD&A was filed, the Company still had 33,915,281 shares outstanding. The following table shows the number of shares outstanding on September 26, 2008.

Description	Issued
Shares issued and fully paid	33,915,281
Warrants	10,420,594
Stock options	1,726,015

Subsequent Events

On August 5, 2008, the Company granted its managers and administrators 250,000 stock options at an exercise price of \$0.17, which represents the closing price of the stock on the eve of the granting, in accordance with the program. These options mature on August 5, 2013.

Quarterly Information

Operating results for each of the eight last quarters are presented in the following table. According to management, information for each of these quarters was established using the same methods as the audited financial statements for the fiscal year ended May 31, 2008. Our quarterly unaudited financial statements have not been reviewed by our external auditors.

2008				
	T1	T2	T3	T4
Sales	40 294	108 701	30 474	262 375
Gross profit	20 727	99 503	13 794	67 408
Net loss	(411 734)	(441 307)	(618 384)	(562 344)
Net loss per share	(0.0148)	(0.0131)	(0.0182)	(0.0166)
Weighted average	27 741 723	33 763 742	33 915 281	33 915 281

2007				
	T1	T2	T3	T4
Sales	6 959	190 962	22 416	17 429
Gross profit	3 236	97 254	10 932	(5 499)
Net loss	(428 974)	(527 461)	(839 106)	(532 543)
Net loss per share	(0.0176)	(0.0216)	(0.0344)	(0.0217)
Weighted average	24 405 000	24 405 000	24 405 000	24 698 007

Significant Accounting Policies

The Company prepares its financial statements in accordance with Canadian Generally Accepted Accounting Principles (“GAAP”), which require management to make estimates and assumptions that affect assets and liabilities, the information related to future assets and liabilities as of the date of the financial statements, as well as the amounts of revenues and expenses for the relevant periods. The elements in the financial statements that require more use of estimates include the provision for bad debt, the provision for the devaluation of inventories, the provision for the receivable research and development tax credit, capital assets and intangible assets. Actual results may differ from these estimates but according to management, they do not result in significant changes versus the results being presented. The Company’s accounting standards are

presented under note 4 to the financial statements.

Revenue Recognition

Revenues are recognized when there is an agreement between the parties, whereas the amount of the transaction is determined or can be determined, the delivery has taken place and collection is reasonably guaranteed.

Certain contracts include several elements or deliverables. Accounting principles for contracts with multiple elements require the Company to divide the amount of the contract between the various components based on the respective fair value of each element and recognize revenues for each element when the recognition criteria are met. To determine the fair value of each element, the Company relies on various factors such as the asked price for an element when it is sold separately and other information deemed relevant by management.

Amounts billed or received that do not meet the revenue recognition criteria are recorded as deferred revenue.

Interest income is accounted for based on the number of days the investment is held during the fiscal year and is calculated based on the effective interest rate.

Research and Development Tax Credits

Research and development tax credits are recorded net of research and development expenses for the fiscal years in which said expenses are incurred, on the condition that the Company is reasonably certain that such credits will be awarded. Research and development tax credits must be analyzed and approved by tax authorities, meaning that final amounts may differ from recorded amounts.

Stock Option Plan

The Company offers a stock option plan for which it applies a fair value method to record stock option distribution to wage and non-wage employees. The fair value of stock options offered to wage earners is set on the date of distribution, through an option analysis model, and the compensation expense is based on the option acquisition period. Any consideration paid by wage or non-wage employees upon the exercise of options, as well as contribution surplus related to said options, will be included in the share capital account.

Changes in Accounting Policy

On June 1, 2007, the Company retroactively adopted, without restating previous years, the recommendations of the following Sections of the Canadian Institute of Chartered Accountants' Handbook: Section 1530 – Comprehensive Income and Section 3855 – Financial Instruments – Recognition and Measurement.

Section 1530 requires that comprehensive income and its components be presented in a new financial statement. Comprehensive income corresponds to the change in equity (net assets) of an enterprise from transactions and other events and circumstances from non-

shareholder sources.

Section 3855 establishes standards for recognizing and measuring financial assets, financial liabilities and derivatives. These standards state when a financial instrument should be recognized in the balance sheet, and for which amount. Based on their classification in the balance sheet, in some cases we refer to fair value, and in others, to the cost-based value. These standards also prescribe the method of presenting the gains and losses of financial instruments. Based on their classification, the gains and losses of financial instruments are recognized in net earnings or in other components of comprehensive income. The Company made the following classifications:

- Cash and temporary investments are classified as held-for-trading financial assets.
- Fixed-term deposits and interest receivable from fixed-term deposits are classified as assets available for sale. They are recorded at their fair value, while fair value fluctuations, net of applicable tax deductions on profits, are recorded in other items of the comprehensive income until financial assets are sold or depreciated. This modification had no significant impact on financial statements as at May 31, 2008.
- Trade accounts receivable are classified as loans and receivables. They are measured at amortized cost, which is generally the initially recognized amount, less any allowance for doubtful accounts. This classification had no effect on the adoption of the new recommendations.
- Accounts payable and accrued liabilities are classified as other financial liabilities. They are measured at amortized cost, based on the effective interest rate method. This classification had no effect on the adoption of the new recommendations.
- Long-term debt is classified as other financial liability. It is valued at amortized cost using the effective interest method. Financing costs are now applied against long-term debt. As at June 1, 2007, this change led to a decrease in the long-term debt and the deficit opening balance of \$5,964. This change led to a decrease in long-term debt of \$1,524 and an increase of the net loss of \$4,440 as at May 28, 2008.

Future Accounting Standards

As at September 10, 2008, certain new primary sources of accepted accounting principles were published but are not yet effective. The Company did not adopt any of these standards in advance. The new standards that may potentially have an impact on the Company's financial statements are as follows:

In December 2006, the CICA published the following new recommendations, which come into effect for fiscal periods beginning October 1, 2007. The Company is currently assessing the impact of adopting these new sections on its financial statements.

Section 3862, Financial Instruments – Disclosures requires entities to provide disclosures on the significance of financial instruments for the entity's financial position and performance and the nature and extent of risks arising from financial instruments to which the entity is exposed, and how the entity manages those risks. The principles in

this Section complement the principles for recognizing, measuring and presenting financial assets and financial liabilities in Section 3855 – Financial Instruments – Recognition and Measurement.

Section 3863 – Financial Instruments – Presentation establishes standards for presentation of financial instruments and non-financial derivatives. It replaces the standards included in Section 3861 – Financial Instruments – Disclosure and Presentation.

Section 1535 – Capital Disclosures establishes standards for disclosing information about an entity's capital and how it is managed to enable users of its financial statements to evaluate the entity's objectives, policies and processes for managing capital.

In June 2007, the CICA published the following new recommendations effective for fiscal periods beginning as of January 1, 2008 and the Company will implement these recommendations as of June 1, 2008. The Company is currently assessing the impact these new standards will have on the financial statements.

Section 1400 – General Standards of Financial Statement Presentation was modified to require management to assess the Company's ability to pursue its operations over a minimum 12-month period as of the closing date, without limitation however as to the period.

Section 3031 – Inventories replaces Section 3030 – Inventories. The new section establishes guidelines on the determination and accounting of costs before expenses, including any depreciation up to the net disposable value. It also covers cost determination methods used to apply costs to inventories.

Changes made to this section affect, namely, the following elements:

- Certain costs, such as storing costs and general and administrative expenses that do not contribute to bring the inventories to where they are (in their condition), are specifically excluded from the cost of the inventories and included as expenses in the fiscal year during which they were incurred;
- The use of depreciation amounts based on their net disposable value in the event of a subsequent increase in the value of the inventories is now required;
- Inventories assessment based on the lowest cost and the replacement cost is no longer permitted;
- The new standard also requires the disclosure of additional information.

Other new standards were published, but they should have no significant impact on the Company's financial statements.

Controls and Procedures for Communicating Information

The CEO, the CFO and other management team members developed controls and procedures for the presentation of information to ensure that important financial information related to the Company be appropriately recorded, processed, summarized

and reported to the Company's audit committee and board of directors. The CEO as well as the CFO have assessed the effectiveness of the communication controls and procedures for financial information as at May 31, 2008. Following this assessment, they concluded that the controls and procedures in place are effective, and that important information pertaining to the management reports (MD&As), the quarterly financial statements, the end of fiscal year financial statements and other documents that must be filed, provide reasonable assurance that all of the Company's important information is being communicated in an efficient manner.

As part of the evaluation process for the development of communication controls and procedures for financial reporting by the CEO and CFO, it was established that enhanced management supervision in connection with controls and procedures should compensate the deficiency related to the segregation of duties, a situation which can be attributed to the size of the Company.

Risks and Uncertainties

Future Capital Needs

SENSIO incurred operating losses in the past fiscal years. The Company's ability to satisfy its obligations and finance its future activities depends on its capacity to reach a profitability level or to be supported by its shareholders and creditors.

Inability to Implement the Established Strategy

The Company's growth depends on its ability to implement the established strategy. Nothing can guarantee that management will be able to successfully implement this strategy.

Economic Conditions

Unfavorable economic changes, in Canada as well as in the United States, may have an adverse impact on SENSIO's financial results.

Currency Risk

The Company's revenues are in large part collected in US dollars, while a sizeable portion of its expenses are incurred in Canadian dollars. Exchange rate fluctuations in the US dollars versus the Canadian dollar may have a significant adverse impact on SENSIO's activities, its financial situation and its operating results. As at the date of this report, the Company's currency risk was not hedged.

Intellectual Property

The Company's patents may be incomplete, invalid, disputed or refused. It is possible that the requested patents are not granted or do not provide the desired protection. This may result in legal actions. These disputes may result in significant expenses, without any guarantee as to their positive outcome. The loss of intellectual property may have adverse effects on the Company's activities and financial situation.

Management believes it performs a stringent follow-up of these risks. Management is constantly monitoring each of these elements and takes necessary action to mitigate risks.

You will find additional information about the Company by visiting the SEDAR Website at (www.sedar.com).

Montréal, September 26, 2008