

Condensed Interim Consolidated Financial Statements

**Opsens Inc.**

Six-month periods ended February 28, 2013  
and February 29, 2012 (unaudited)

## **Notice**

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

# Opsens Inc.

February 28, 2013 and February 29, 2012

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# Opsens Inc.

## Interim Consolidated Statements of Loss and Comprehensive Loss Six-month periods ended February 28, 2013 and February 29, 2012 (unaudited)

	<u>Three-month periods ended</u>		<u>Six-month periods ended</u>	
	<u>February 28, 2013</u>	<u>February 29, 2012</u>	<u>February 28, 2013</u>	<u>February 29, 2012</u>
	\$	\$	\$	\$
Revenues				
Sales	1,836,766	2,377,537	4,369,515	4,872,330
Cost of sales	1,193,372	1,659,194	2,507,843	3,395,987
Gross margin	643,394	718,343	1,861,672	1,476,343
Expenses (revenues)				
Administrative	610,661	705,441	1,149,290	1,257,371
Marketing	226,296	239,576	475,661	442,362
Research and development	424,000	459,842	811,382	768,264
Financial expenses (revenues)	4,953	(11,227)	26,626	(57,567)
	1,265,910	1,393,632	2,462,959	2,410,430
Loss before income taxes	(622,516)	(675,289)	(601,287)	(934,087)
<b>Net loss and comprehensive loss</b>	<b>(622,516)</b>	<b>(675,289)</b>	<b>(601,287)</b>	<b>(934,087)</b>
<b>Net loss per share (note 5)</b>				
Basic	(0.01)	(0.01)	(0.01)	(0.02)
Diluted	(0.01)	(0.01)	(0.01)	(0.02)

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

# Opsens Inc.

## Interim Consolidated Statements of Changes in Equity

Period ended February 28, 2013

(unaudited)

	Common shares (number)	Warrants (number)	Stock options (number)	Total (number)	Common shares \$	Reserve - Warrants \$	Reserve - Stock option plan \$	Deficit \$	Total \$
Balance as at August 31, 2012	47,865,983	-	3,419,000	<b>51,284,983</b>	15,201,618	2,190,382	1,150,424	(12,908,943)	<b>5,633,481</b>
Options granted	-	-	1,433,667	<b>1,433,667</b>	-	-	-	-	-
Options cancelled	-	-	(30,000)	<b>(30,000)</b>	-	-	-	-	-
Options expired	-	-	(500,000)	<b>(500,000)</b>	-	-	-	-	-
Stock-based compensation	-	-	-	-	-	-	54,915	-	<b>54,915</b>
Net loss	-	-	-	-	-	-	-	(601,287)	<b>(601,287)</b>
Balance as at February 28, 2013	47,865,983	-	4,322,667	<b>52,188,650</b>	15,201,618	2,190,382	1,205,339	(13,510,230)	<b>5,087,109</b>

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

# Opsens Inc.

## Interim Consolidated Statements of Changes in Equity

Period ended February 29, 2012

(unaudited)

	Common shares (number)	Warrants (number)	Stock options (number)	<b>Total</b> (number)	Common shares \$	Reserve - Warrants \$	Reserve - Stock option plan \$	Deficit \$	<b>Total</b> \$
Balance as at									
August 31, 2011	47,865,983	2,443,049	4,177,000	<b>54,486,032</b>	15,201,618	2,190,382	1,013,335	(10,979,265)	<b>7,426,070</b>
Options granted	-	-	970,000	<b>970,000</b>	-	-	-	-	-
Options cancelled	-	-	(1,447,500)	<b>(1,447,500)</b>	-	-	-	-	-
Warrants cancelled	-	(2,443,049)	-	<b>(2,443,049)</b>	-	-	-	-	-
Stock-based compensation	-	-	-	-	-	-	81,075	-	<b>81,075</b>
Net loss	-	-	-	-	-	-	-	(934,087)	<b>(934,087)</b>
Balance as at									
February 29, 2012	47,865,983	-	3,699,500	<b>51,565,483</b>	15,201,618	2,190,382	1,094,410	(11,913,352)	<b>6,573,058</b>

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

# Opsens Inc.

## Consolidated Statements of Financial Position

(unaudited)

	As at February 28, 2013	As at August 31, 2012
	\$	\$
<b>Assets</b>		
Current		
Cash and cash equivalents (note 6)	4,754,008	2,576,586
Trade and other receivables	1,475,591	901,311
Income tax credits receivable	467,310	299,395
Inventories	2,377,126	1,979,073
Prepaid expenses	237,327	138,773
	9,311,362	5,895,138
Property, plant and equipment	1,030,934	813,142
Intangible assets	361,852	350,185
Goodwill	676,574	676,574
	11,380,722	7,735,039
<b>Liabilities</b>		
Current		
Accounts payable and accrued liabilities	1,255,163	1,343,905
Warranty provision	187,273	84,273
Current portion of long-term debt	197,204	166,404
	1,639,640	1,594,582
Deferred revenues (note 4)	2,002,000	-
Long-term debt	583,647	506,976
Convertible debenture (note 3)	2,068,326	-
	6,293,613	2,101,558
<b>Shareholders' equity</b>		
Share capital	15,201,618	15,201,618
Reserve – Stock option plan	1,205,339	1,150,424
Reserve - Warrants	2,190,382	2,190,382
Deficit	(13,510,230)	(12,908,943)
	5,087,109	5,633,481
	11,380,722	7,735,039

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

Approved by the board

Signed [Jean Lavigueur] director

Signed [Louis Laflamme] director

# Opsens Inc.

## Interim Consolidated Statements of Cash Flows

Six-month periods ended February 28, 2013 and February 29, 2012

(unaudited)

	Three-month periods ended		Six-month periods ended	
	February 28, 2013	February 29, 2012	February 28, 2013	February 29, 2012
	\$	\$	\$	\$
<b>Operating activities</b>				
Net loss before income taxes	(622,516)	(675,289)	(601,287)	(934,087)
Adjustments for:				
Depreciation of property, plant and equipment	70,981	57,491	131,296	113,200
Amortization of intangible assets	7,089	10,297	14,413	18,300
Stock-based compensation costs	24,184	35,817	54,915	81,075
Change in fair value of embedded derivative	2,691	-	2,691	-
Interest expense	11,494	9,567	19,189	11,635
Implicit interest on balance of purchase price	-	(16,987)	-	(34,682)
Effect of foreign exchange rate changes on cash and cash equivalents held in foreign currency	90,695	1,164	87,254	(8,532)
Unrealized foreign exchange gain (loss)	75,787	13,709	75,787	(4,019)
Changes in non-cash operating working capital items (note 6)	(218,203)	(342,428)	(1,224,544)	(1,611,399)
	(557,798)	(906,659)	(1,440,286)	(2,368,509)
<b>Investing activities</b>				
Acquisition of property, plant and equipment	(218,915)	(82,882)	(349,088)	(207,602)
Acquisition of intangible assets	(15,496)	(28,736)	(26,080)	(64,115)
	(234,411)	(111,618)	(375,168)	(271,717)
<b>Financing activities</b>				
Increase in long-term deferred revenues	-	-	2,002,000	-
Proceeds from the issuance of the convertible debenture	-	-	2,002,000	-
Increase in long-term debt	59,951	276,688	189,700	581,589
Payments on long-term debt	(43,428)	(51,840)	(97,029)	(73,123)
Interest paid	(8,846)	(9,567)	(16,541)	(11,635)
	7,677	215,281	4,080,130	496,831
Effect of foreign exchange rate changes on cash held in foreign currency	(90,695)	(1,164)	(87,254)	8,532
Increase (decrease) in cash and cash equivalents	(875,227)	(804,160)	2,177,422	(2,134,863)
Cash and cash equivalents - beginning of period	5,629,235	2,416,617	2,576,586	3,747,320
Cash and cash equivalents - end of period	4,754,008	1,612,457	4,754,008	1,612,457

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

Additional information is presented in note 6.



# Opsens Inc.

## Notes to the Condensed Interim Consolidated Financial Statements

February 28, 2013 and February 29, 2012

(unaudited)

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### 1. Description of business

Opsens inc. (the "Company") is incorporated under the Business Corporation Act (Quebec). The Company specializes in developing and manufacturing technical and scientific instruments. The Company's head office is located at 125-2014, Cyrille-Duquet, Quebec (Quebec), Canada.

### 2. Basis of Preparation

These condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") applicable to the preparation of interim financial statements, including IAS 34, "Interim Financial Reporting" and using the same accounting policies and methods of computation as our most recent annual financial statements. These condensed interim consolidated financial statements should be read in conjunction with the annual financial statements for the year ended August 31, 2012, which have been prepared in accordance with IFRS as issued by the IASB.

### 3. Convertible Debenture

On November 19, 2012, the Company issued US\$2,000,000 in subordinated secured convertible debenture maturing November 19, 2017. The convertible debenture bears interest at a rate of 2,0% per annum payable at maturity. At the holder's option, the convertible debenture may be converted into common shares of the Company at any time up to the maturity date at a conversion price representing the market price of the shares. However, the conversion price is subject to a minimum of \$0,50 and a maximum of \$0,75 per common share (the "conversion price").

The convertible debenture is also convertible at the Company's option at the conversion price if the volume-weighted average closing price per common share for the twenty trading days immediately preceding the fifth trading day before such conversion date is at least \$1,20 and if a minimum of 50,000 common shares have traded on the TSX Venture Exchange during each of the twenty trading days taken into account in the calculation of the conversion price.

To secure the repayment of the convertible debenture, a movable hypothec on certain equipment has been given. This hypothec will rank second to certain long-term loans of the Company.

As noted above, the convertible debenture contains a conversion option that will result in an obligation to deliver a fixed amount of equity in exchange of a variable amount of convertible debenture when translated in the functional currency of the Company. Consequently, under IAS 32, "Financial Instruments: Presentation", the convertible debenture is accounted for as a compound instrument with a debt component and a separate embedded derivative representing the conversion option. Both the debt and embedded derivative components of this compound financial instrument are measured at fair value on initial recognition. The debt component is subsequently accounted for at amortized cost using the effective interest rate method. The embedded derivative is subsequently measured at fair value at each reporting date with gains and losses in fair value recognized through profit or loss.

The situation of the outstanding convertible debenture as of February 28, 2013 and August 31, 2012 is as follows:

	<b>As at February 28, 2013</b>	<b>As at August 31, 2012</b>
	\$	\$
Debt component reported as long-term liability	2,015,415	-
Embedded derivative reported as long-term liability	52,911	-
<b>Total</b>	<b>2,068,326</b>	<b>-</b>

# Opsens Inc.

## Notes to the Condensed Interim Consolidated Financial Statements

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(unaudited)

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### 4. Deferred Revenues

On November 19, 2012, the Company announced the granting of distribution and other rights to OptoWire and OptoMonitor, Opsens' products for measuring Fractional Flow Reserve ("FFR"). Under the terms of the agreement, the Company received:

- US\$3 million for the distribution rights for its FFR products for Japan, Korea and Taiwan, which includes:
  - a. US\$2 million at signing ("upfront license fee");
  - b. US\$1 million once Opsens gets regulatory approval for its FFR devices in Japan ("milestone payment");
- US\$2 million in convertible debenture, at signing, as described in note 3 of these financial statements.

The Company shall reimburse the upfront license fee upon the occurrence of any of the following events:

- a. The Company fails to obtain regulatory approval for the OptoWire and the OptoMonitor within five years of the agreement date for all the following geographic regions : Canada, European Union and the United States;
- b. The Company abandons the development of the OptoWire and OptoMonitor before obtaining the milestone payment;
- c. The Company materially breaches any terms of the agreement or is subject to bankruptcy.

Because the Company doesn't have regulatory approvals, it has recorded the \$2,002,000 (US\$2,000,000) upfront license fee as deferred revenues.

The Company believes that the three conditions for a reimbursement of the upfront license fee listed above will not occur over the next twelve months. Consequently, the deferred revenues have been recorded in the long-term liabilities section of the statement of financial position.

# Opsens Inc.

## Notes to the Condensed Interim Consolidated Financial Statements

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(unaudited)

### 5. Net Loss per Share

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

	Three-month periods ended		Six-month periods ended	
	February 28, 2013	February 29, 2012	February 28, 2013	February 29, 2012
	\$	\$	\$	\$
<b>Numerator</b>				
Net loss	(622,516)	(675,289)	(601,287)	(934,087)
Amount available for calculating the net loss per share				
	(622,516)	(675,289)	(601,287)	(934,087)
<b>Denominator</b>				
Basic weighted average number of shares outstanding				
	47,865,983	47,865,983	47,865,983	47,865,983
Dilutive effect of stock options				
	179,509	23,104	134,762	15,220
Dilutive effect of the convertible debenture				
	3,986,800	-	2,237,038	-
Diluted weighted average number of shares outstanding				
	52,032,292	47,889,087	50,237,783	47,881,203
<b>Amount per share</b>				
Net loss per share				
Basic	(0.01)	(0.01)	(0.01)	(0.02)
Diluted	(0.01)	(0.01)	(0.01)	(0.02)

Stock options and warrants are excluded from the calculation of the diluted weighted average number of shares outstanding when their exercise price is greater than the average market price of common shares. The number of such stock options and warrants is presented below:

	Three-month periods ended		Six-month periods ended	
	February 28, 2013	February 29, 2012	February 28, 2013	February 29, 2012
Stock options	2,398,667	2,829,500	2,398,667	2,829,500
Warrants	-	2,443,049	-	2,443,049

For the three-month and six-month periods ended February 28, 2013 (three-month and six-month periods ended February 29, 2012), the diluted amount per share was the same amount as the basic amount per share since the dilutive effect of stock options was not included in the calculation; otherwise, the effect would have been antidilutive. Accordingly, the diluted amount per share for this period was calculated using the basic weighted average number of shares outstanding.

# Opsens Inc.

## Notes to the Condensed Interim Consolidated Financial Statements

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(unaudited)

### 6. Statements of Cash Flows

	Three-month periods ended		Six-month periods ended	
	February 28, 2013	February 29, 2012	February 28, 2013	February 29, 2012
	\$	\$	\$	\$
<i>Changes in non-cash operating working capital items</i>				
Trade and other receivables	273,114	(282,034)	(574,280)	(1,612,658)
Income tax credits receivable	(85,446)	(65,177)	(167,915)	(137,268)
Inventories	(404,439)	(149,166)	(398,053)	(244,468)
Prepaid expenses	(106,650)	40,295	(98,554)	26,081
Accounts payable and accrued liabilities	12,218	105,584	(88,742)	345,844
Warranty provision	93,000	8,070	103,000	11,070
	(218,203)	(342,428)	(1,224,544)	(1,611,399)
			<b>As of February 28, 2013</b>	<b>As of August 31, 2012</b>
			\$	\$
<i>Cash and cash equivalents</i>				
Cash			1,378,964	1,292,845
Short-term investments			3,375,044	1,283,741
			4,754,008	2,576,586

### 7. Segmented information

#### *Sector's information*

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

# Opsens Inc.

## Notes to the Condensed Interim Consolidated Financial Statements

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(unaudited)

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

	Three-month period ended			Three-month period ended		
	February 28, 2013			February 29, 2012		
	Opsens			Opsens		
	Opsens Inc.	Solutions Inc.	Total	Opsens Inc.	Solutions Inc.	Total
	\$	\$	\$	\$	\$	\$
External sales	359,297	1,477,469	1,836,766	544,749	1,832,788	2,377,537
Internal sales	428,388	-	428,388	479,838	-	479,838
Depreciation of property, plant and equipment	40,711	30,270	70,981	36,898	20,593	57,491
Amortization of intangible assets	5,691	1,398	7,089	9,273	1,024	10,297
Financial expenses (revenues)	(67,524)	72,477	4,953	(84,350)	73,123	(11,227)
Net profit (net loss)	(609,516)	(13,000)	(622,516)	(743,943)	68,654	(675,289)
Purchase of property, plant and equipment	70,685	148,230	218,915	16,603	66,279	82,882
Additions to intangible assets	15,496	-	15,496	26,869	1,867	28,736
Segment assets	7,322,299	4,058,423	11,380,722	4,648,842	3,957,178	8,606,020
Segment liabilities	5,635,726	657,887	6,293,613	1,591,010	441,952	2,032,962

	Six-month period ended			Six-month period ended		
	February 28, 2013			February 29, 2012		
	Opsens			Opsens		
	Opsens Inc.	Solutions Inc.	Total	Opsens Inc.	Solutions Inc.	Total
	\$	\$	\$	\$	\$	\$
External sales	1,023,540	3,345,975	4,369,515	1,215,995	3,656,335	4,872,330
Internal sales	625,180	-	625,180	920,654	-	920,654
Depreciation of property, plant and equipment	77,363	53,933	131,296	75,029	38,171	113,200
Amortization of intangible assets	11,613	2,800	14,413	16,425	1,875	18,300
Financial expenses (revenues)	(111,057)	137,683	26,626	(194,965)	137,398	(57,567)
Net profit (net loss)	(960,000)	358,713	(601,287)	(1,140,060)	205,973	(934,087)
Purchase of property, plant and equipment	89,832	259,256	349,088	37,871	169,731	207,602
Additions to intangible assets	26,080	-	26,080	62,248	1,867	64,115
Segment assets	7,322,299	4,058,423	11,380,722	4,648,842	3,957,178	8,606,020
Segment liabilities	5,635,726	657,887	6,293,613	1,591,010	441,952	2,032,962

# Opsens Inc.

## Notes to the Condensed Interim Consolidated Financial Statements

February 28, 2013 and February 29, 2012

(unaudited)

### *Geographic sector's information*

	Three-month period ended		Six-month period ended	
	February 28, 2013	February 29, 2012	February 28, 2013	February 29, 2012
	\$	\$	\$	\$
Revenues per geographic sector				
Canada	1,496,592	1,792,716	3,387,016	3,731,270
United States	102,912	423,660	344,432	783,587
Others	237,262	161,161	638,067	357,473
	1,836,766	2,377,537	4,369,515	4,872,330

Revenues are attributed to the geographic sector based on the clients' location. Capital assets, which include property, plant and equipment and intangible assets, are all located in Canada.

During the three-month period ended February 28, 2013, revenues from two clients represented individually more than 10% of the total revenues of the Company, i.e. approximately 63% (Opsens Solutions Inc.'s reportable segment) and 12% (Opsens Solutions Inc.'s reportable segment).

During the three-month period ended February 29, 2012, revenues from three clients represented individually more than 10% of the total revenues of the Company, i.e. approximately 59% (Opsens Solutions Inc.'s reportable segment), 13% (Opsens Inc.'s reportable segment) and 11% (Opsens Solutions Inc.'s reportable segment).

During the six-month period ended February 28, 2013, revenues from three clients represented individually more than 10% of the total revenues of the Company, i.e. approximately 43% (Opsens Solutions Inc.'s reportable segment), 18% (Opsens Solutions Inc.'s reportable segment) and 14% (Opsens Solutions Inc.'s reportable segment).

During the six-month period ended February 29, 2012, revenues from two clients represented individually more than 10% of the total revenues of the Company, i.e. approximately 49% (Opsens Solutions Inc.'s reportable segment) and 13% (Opsens Solutions Inc.'s reportable segment).

## **8. Approval of Financial Statements**

The financial statements were approved by the board of directors and authorized for issue on April 22, 2013.