

Consolidated Financial Statements

Opsens Inc.

Years ended August 31, 2013 and 2012

Opsens Inc.

Years ended August 31, 2013 and 2012

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Independent auditor's report

To the Shareholders of Opsens Inc.

We have audited the accompanying consolidated financial statements of Opsens Inc., which comprise the consolidated statements of financial position as at August 31, 2013 and 2012, and the consolidated statements of loss and comprehensive loss, changes in equity and cash flows for the years then ended , and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Opsens Inc. as at August 31, 2013 and 2012, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Deloitte s.e.m.u.l.

November 25, 2013

¹ CPA auditor, CA, public accountancy permit No A112991

Opsens Inc.

Consolidated Statements of Loss and Comprehensive Loss Years ended August 31, 2013 and 2012

	2013	2012
	\$	\$
Revenues		
Sales	7,526,422	8,461,930
Cost of sales	4,779,824	5,721,529
Gross margin	2,746,598	2,740,401
Expenses (revenues) (note 25)		
Administrative	2,313,634	2,303,747
Marketing	953,716	928,784
Research and development	1,762,161	1,533,915
Financial expenses (revenues) (note 26)	99,917	(96,367)
Change in fair value of embedded derivative (note 14)	(17,005)	-
	5,112,423	4,670,079
Net loss and comprehensive loss	(2,365,825)	(1,929,678)
Net loss per share (note 16)		
Basic	(0.05)	(0.04)
Diluted	(0.05)	(0.04)

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

Opsens Inc.

Consolidated Statements of Changes in Equity

Years ended August 31, 2013 and 2012

	Common shares (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	51,284,983	15,201,618	2,190,382	1,150,424	(12,908,943)	5,633,481
Options granted (note 15b)	-	1,483,667	1,483,667	-	-	-	-	-
Options forfeited (note 15b)	-	(715,000)	(715,000)	-	-	-	-	-
Options cancelled (note 15b)	-	(46,000)	(46,000)	-	-	-	-	-
Stock-based compensation (note 15b)	-	-	-	-	-	125,522	-	125,522
Net loss	-	-	-	-	-	-	(2,365,825)	(2,365,825)
Balance as at								
August 31, 2013	47,865,983	4,141,667	52,007,650	15,201,618	2,190,382	1,275,946	(15,274,768)	3,393,178

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

Opsens Inc.

Consolidated Statements of Changes in Equity

Years ended August 31, 2013 and 2012

	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, 2011	47,865,983	2,443,049	4,177,000	54,486,032	15,201,618	2,190,382	1,013,335	(10,979,265)	7,426,070
Options granted (note 15b)	-	-	1,684,000	1,684,000	-	-	-	-	-
Options forfeited (note 15b)	-	-	(1,350,000)	(1,350,000)	-	-	-	-	-
Options cancelled (note 15b)	-	-	(1,092,000)	(1,092,000)	-	-	-	-	-
Warrants expired (note 15c)	-	(2,443,049)	-	(2,443,049)	-	-	-	-	-
Stock-based compensation									
(note 15b)	-	-	-	-	-	-	137,089	-	137,089
Net loss	-	-	-	-	-	-	-	(1,929,678)	(1,929,678)
Balance as at									
August 31, 2012	47,865,983	-	3,419,000	51,284,983	15,201,618	2,190,382	1,150,424	(12,908,943)	5,633,481

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

Opsens Inc.

Consolidated Statements of Financial Position

As of August 31, 2013 and 2012

	2013	2012
	\$	\$
Assets		
Current		
Cash and cash equivalents (note 17)	3,662,259	2,576,586
Trade and other receivables (note 5)	959,857	901,311
Income tax credits receivable (note 22)	565,086	299,395
Work in progress	55,491	-
Inventories (note 6)	3,028,306	1,979,073
Prepaid expenses	187,672	138,773
	8,458,671	5,895,138
Property, plant and equipment (note 7)	998,461	813,142
Intangible assets (note 8)	394,421	350,185
Goodwill (note 9)	676,574	676,574
	10,528,127	7,735,039
Liabilities		
Current		
Accounts payable and accrued liabilities (note 11)	2,042,063	1,343,905
Warranty provision (note 19)	144,783	84,273
Deferred revenues	51,188	-
Current portion of long-term debt (note 13)	177,285	166,404
	2,415,319	1,594,582
Deferred revenues (note 12)	2,002,000	-
Long-term debt (note 13)	587,819	506,976
Convertible debenture (note 14)	2,129,811	-
	7,134,949	2,101,558
Shareholders' equity		
Share capital (note 15a)	15,201,618	15,201,618
Reserve – Stock option plan	1,275,946	1,150,424
Reserve – Warrants	2,190,382	2,190,382
Deficit	(15,274,768)	(12,908,943)
	3,393,178	5,633,481
	10,528,127	7,735,039

Commitments (note 18)

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

Approved by the board

Signed [Jean Lavigueur] director

Signed [Louis Laflamme] director

Opsens Inc.

Consolidated Statements of Cash Flows Years ended August 31, 2013 and 2012

	2013	2012
	\$	\$
Operating activities		
Net loss	(2,365,825)	(1,929,678)
Adjustments for:		
Depreciation of property, plant and equipment	287,469	230,124
Amortization of intangible assets	31,003	34,558
Stock-based compensation costs	125,522	137,089
Change in fair value of embedded derivative	(17,005)	-
Interest expense (revenues)	90,324	(62,456)
Effect of foreign exchange rate changes on cash and cash equivalents	91,116	(19,921)
Unrealized foreign exchange gain (loss)	104,105	(4,019)
Changes in non-cash operating working capital items (note 17)	1,333,996	(180,640)
	(319,295)	(1,794,943)
Investing activities		
Acquisition of property, plant and equipment	(472,788)	(301,618)
Additions to intangible assets	(75,239)	(136,701)
Proceeds of assets disposal	-	498,740
	(548,027)	60,421
Financing activities		
Proceeds from the issuance of the convertible debenture	2,002,000	-
Increase in long-term debt	265,222	695,601
Reimbursement of long-term debt	(191,025)	(143,963)
Interest paid	(32,086)	(7,771)
	2,044,111	543,867
Effect of foreign exchange rate changes on cash and cash equivalents	(91,116)	19,921
Increase (decrease) in cash and cash equivalents	1,085,673	(1,170,734)
Cash and cash equivalents – Beginning of year	2,576,586	3,747,320
Cash and cash equivalents – End of year	3,662,259	2,576,586

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

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

Opsens Inc.

Notes to Consolidated Financial Statements

Years ended August 31, 2013 and 2012

1. Incorporation and Description of Business

Opsens Inc. (the "Company") is incorporated under the *Business Corporation Act* (Quebec). The Company is focusing on two main growth markets, oil and gas and Fractional Flow Reserve ("FFR"). The Company is also involved in laboratories activities. Opsens develops, manufactures, supplies and installs systems for measuring parameters of pressure, temperature and others. These systems are designed around patented technologies that are effective and durable in extreme conditions. The Company's head office is located at 125-2014, Cyrille-Duquet, Quebec, Quebec, Canada, G1N 4N6.

2. Summary of Significant Accounting Policies

The significant accounting policies used in the preparation of the consolidated financial statements are as follows:

Basis of Measurement

The consolidated financial statements have been prepared under the historical cost convention, except for the embedded derivative, which is measured at fair value.

Basis of Preparation

The Company prepares its consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS) as set out in the Canadian Institute of Chartered Accountants (CICA) Handbook. The Company has consistently applied the accounting policies throughout all fiscal years presented.

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 3.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and those of its wholly-owned subsidiary, Opsens Solutions Inc. All intra-group transactions, balances, revenues and expenses are eliminated in full on consolidation until they are realized with a third party.

Subsidiaries

Subsidiaries are all entities controlled by the Company. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities, and continue to be consolidated until the date that such control ceases.

Changes in the parent company's ownership interest in subsidiaries that do not result in a loss of control are accounted for as equity transactions.

Revenue Recognition

Opsens Inc. reportable segment revenues related to the sales of products are measured at the fair value of the consideration received or receivable upon shipment of the product and when the risks and rewards of ownership have been transferred to the customer, when there is no continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, when the amount of revenue can be measured reliably and when the recovery of the consideration is probable and the associated costs and possible return of goods can be measured.

Opsens Inc.

Notes to Consolidated Financial Statements Years ended August 31, 2013 and 2012

2. Summary of Significant Accounting Policies (continued)

Revenue Recognition (continued)

Opsens Solutions Inc. reportable segment revenues related to the sale of products and sensor installation services are recognized when persuasive evidence of an arrangement exists, on-site installation has occurred, the price to the buyer is fixed or determinable and collection is reasonably assured. For contract revenues earned over a long period, revenues are recorded using the percentage-of-completion method. Therefore, these revenues are recognized proportionately with the degree of completion of the work. The Company uses the efforts expended method to calculate the degree of completion of work based on the number of hours incurred as at the balance sheet date compared to the estimated total number of hours. Work in progress is valued by taking into consideration the number of hours worked and contract costs incurred but not yet invoiced and the payments received. For contracts where billings exceed contract costs incurred to date plus recognized profits less recognized losses, the excess is shown on the consolidated statement of financial position as deferred revenues. Losses are recorded as soon as they become apparent.

Reporting Currency and Foreign Currency Transactions

The consolidated financial statements are presented in Canadian dollars, which is also the functional currency of the Company, as this is the principal currency of the economic environment in which it operates.

Foreign currency transactions are translated into Canadian dollars as follows: monetary assets and liabilities are translated at the exchange rate in effect at the consolidated statements of financial position date, non-monetary assets and liabilities are translated at historical rates, revenues and expenses are translated at the exchange rates in effect at the time of the transaction and exchange gains and losses resulting from translation are reflected in the consolidated statements of loss.

Research and Development Costs

Research costs are expensed as incurred. Development costs are expensed as incurred except for those which meet generally accepted criteria for deferral, in which case, the costs are capitalized and amortized to operations over the estimated period of benefit. No costs have been deferred during any of the periods presented.

Research and Development Refundable Tax Credits and Government Assistance

Refundable research and development ("R&D") tax credits and government assistance are accounted for using the cost reduction method. Accordingly, refundable R&D tax credits and government assistance are recorded as a reduction of the related expenses or capital expenditures in the period the expenses are incurred, provided that the Company has reasonable assurance the refundable R&D tax credits or government assistance will be realized.

Stock-based Compensation and Other Stock-based Payments

The Company offers a stock option plan described in note 15, which is determined as an equity-settled plan, and issues warrants to certain investors from time to time.

The Company uses the fair value-based 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 recognized in the consolidated statements of loss over the vesting period and are credited to the stock option plan reserve.

Any consideration received by the Company upon the exercise of stock options is credited to share capital, and the stock option plan reserve component resulting from stock-based compensation is transferred to share capital upon the issuance of the shares.

Opsens Inc.

Notes to Consolidated Financial Statements

Years ended August 31, 2013 and 2012

2. Summary of Significant Accounting Policies (continued)

Cash and Cash Equivalents

Cash and cash equivalents include cash and short-term investments redeemable anytime or with a maturity of three months or less beginning on the acquisition date.

Inventories

Inventories are valued at the lower of cost and net realizable value. Cost is essentially determined using the weighted average cost. The cost of work in progress and finished goods comprises the cost of raw materials, direct labor costs and an allocation of fixed and variable manufacturing overhead, including applicable depreciation of property, plant and equipment based on normal production capability.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. Inventories are written down to net realizable value when the cost of inventories is determined not to be recoverable. When the circumstances that previously caused the inventories to be written down below cost no longer exist or when there is clear evidence of an increase in net realizable value because of changed economic circumstances, the amount of the write-down is reversed. The reversal is limited to the amount of the original write-down.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost, less accumulated depreciation and accumulated impairment losses, if any. The cost of property, plant and equipment includes the purchase price and the directly attributable costs of acquisition.

Depreciation is recorded using the straight-line method based on estimated useful lives, taking into account any residual value, as follows:

Office furniture and equipment	10 years
Production equipment	7 years
Automotive equipment	7 years
Research and development equipment	7 years
Research and development computer equipment	3 years
Computer equipment	3 years
	Remaining lease terms
	between seventeen
Leasehold improvements	and twenty months

Depreciation methods, residual values and useful lives of property, plant and equipment are reviewed annually. Any change is accounted for prospectively as a change in accounting estimates.

Intangible Assets

Intangible assets with finite useful lives consist of patents and software. They are recorded at cost and amortization is recorded using the straight-line method based on estimated useful lives taking into account any residual values, as follows:

Patents	Term of underlying patent, 5 to 20 years
Software	3 years

The Company's indefinite-life intangible assets consist of trademarks resulting from a business combination and are not amortized.

Opsens Inc.

Notes to Consolidated Financial Statements

Years ended August 31, 2013 and 2012

2. Summary of Significant Accounting Policies (continued)

Goodwill

Goodwill represents the excess of the purchase price of an acquisition over the fair value of the Company's share of the identifiable net assets of acquired businesses at the date of acquisition. Goodwill is carried at cost less any accumulated impairment losses. Goodwill is allocated to each Cash Generating Unit ("CGU") or group of CGUs that is expected to benefit from the related business combination. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of cash inflows from other assets or group of assets. Gains and losses on the disposal of an entity include the carrying amount of goodwill related to the entity sold.

Impairment of Non-financial Assets

Goodwill and Indefinite-Life Intangible Assets

The carrying values of identifiable intangible assets with indefinite life and goodwill are tested annually for impairment. Goodwill and indefinite-life intangible assets are allocated to CGUs for the purpose of impairment testing based on the level at which management monitors it, which is not higher than an operating segment. The allocation is made to those CGUs that are expected to benefit from the business combination in which goodwill arose. The Company has elected to carry its annual impairment test during the last quarter of each year or at any time if an indicator of impairment exist.

Non-Financial Assets with Definite Useful Life

The carrying values of non-financial assets with definite useful life, such as property, plant and equipment and intangible assets with definite useful life, are assessed for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. If any such indication exists, the recoverable amount of the asset must be determined. Such assets are impaired if their recoverable amount is lower than their carrying amount. If it is not possible to estimate the recoverable amount of an individual asset, the recoverable amount of the CGU to which the asset belongs is tested for impairment.

Recognition of Impairment Charge

The recoverable amount is the higher of an asset's fair value less costs to sell or its value in use. If the recoverable amount of an asset or CGU is estimated to be less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount. The resulting impairment loss is recognized in the consolidated statements of loss. Impairment losses recognized in prior periods are determined at each reporting date for any indications that the loss has decreased or no longer exists. When an impairment loss is subsequently reversed, the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount so that the increased carrying amount does not exceed the carrying amount that would have been recorded had no impairment losses been recognized for the asset or CGU in prior years. An impairment loss recognized for goodwill cannot be reversed.

Leases

Leases are classified as either operating or finance, based on the substance of the transaction at the inception of the lease. The Company leases certain office premises and equipment in which a significant portion of the risks and rewards of ownership are retained by the lessor. These are classified as operating leases. Payments made under these leases (net of any incentives received from the lessor) are charged to the consolidated statements of loss on a straight-line basis over the period of the lease.

Finance leases which transfer to the Company substantially all the risks and benefits of ownership of the asset are capitalized at the inception of the lease at the fair value of the leased asset or at the present value of the minimum lease payments. Finance expenses are charged to the consolidated statements of loss over the period of the agreement. Obligations under finance leases are included in financial liabilities net of finance costs allocated to future periods. Capitalized leased assets are depreciated over the shorter of the estimated life of the asset or the lease term.

Opsens Inc.

Notes to Consolidated Financial Statements Years ended August 31, 2013 and 2012

2. Summary of Significant Accounting Policies (continued)

Warranty Provision

The Company offers a standard 12-month warranty for surface materials.

For downhole materials, the Company guarantees that the downhole materials shall be free from defects but given that the downhole environmental conditions are not exactly known, the Company does not guarantee the performance of the downhole materials once they have entered the wellbore. The estimated cost of the warranty is based on the history of defective products and accessories, the probability that these defects will arise and the costs to repair them.

Income Taxes

Income tax expenses comprise current and deferred income taxes. Income taxes are recognized in the consolidated statements of loss except to the extent that it relates to items recognized directly in equity, in which case the income taxes are also recognized directly in equity.

Current Income Taxes

The current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be paid to or recovered from the taxation authorities. The income tax rates used to calculate the amount are those that are enacted or substantively enacted at the consolidated statements of financial position date in the tax jurisdiction where the Company and its subsidiary generate taxable income/loss.

Deferred Income Taxes

The Company provides for deferred income taxes using the liability method. Under this method, deferred income tax assets and liabilities are determined based on deductible or taxable temporary differences between carrying values and tax values of assets and liabilities as well as the carryforward of unused tax losses and deductions, using enacted or substantively enacted income tax rates expected to be in effect for the years in which the assets are expected to be realized or the liabilities settled.

Deferred income tax assets are recognized only to the extent that it is probable that taxable profits will be available against which the deductible temporary differences can be utilized. The carrying amount of deferred tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities are generally recognized for all taxable temporary differences and for taxable temporary differences arising on investments in subsidiaries, except where the reversal of the temporary differences can be controlled and it is probable that the differences will not reverse in the foreseeable future. However, deferred tax is not recognized if it arises from the initial recognition of goodwill or the initial recognition of an asset or liability in a transaction other than a business combination that, at the time of the transaction, affects neither accounting nor taxable profit or loss.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Deferred income tax assets and liabilities are presented as non-current in the consolidated statements of financial position.

Opsens Inc.

Notes to Consolidated Financial Statements

Years ended August 31, 2013 and 2012

2. Summary of Significant Accounting Policies (continued)

Loss per Share

Basic net loss per share is calculated by dividing the net loss for the year attributable to equity owners of the Company by the weighted-average number of common shares outstanding during the year.

Diluted net loss per share is calculated by dividing the net loss for the year attributable to equity owners of the Company adjusted for the interests on the convertible debenture net of tax and for the change in fair value of embedded derivative, net of tax by the weighted-average number of common shares outstanding during the year, plus the effects of dilutive common share equivalents. This method requires that diluted net loss per share be calculated using the treasury stock method, as if all dilutive potential common share equivalents had been exercised at the beginning of the reporting period, or period of issuance, as the case may be, and that the funds obtained thereby be used to purchase common shares of the Company at the fair value of the common shares during the period.

Financial Instruments

a) Classification

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

Financial assets and liabilities are offset and the net amount reported in the consolidated statements of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the assets and settle the liability simultaneously.

At initial recognition, the Company classifies its financial instruments in the following categories, depending on the purpose for which the instruments are required:

- **Loans and receivables:** Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Company's loans and receivables are comprised of cash and cash equivalents and trade and other receivables and are included in the current assets due to their short-term nature. Loans and receivables are initially recognized at fair value plus transaction costs. Subsequently, loans and receivables are measured at amortized cost using the effective interest method, which generally corresponds to the nominal amount due to their short-term maturity, less a provision for impairment.
- **Financial liabilities at amortized cost:** Financial liabilities at amortized cost include accounts payable and accrued liabilities, long-term debt and the debt component of the convertible debenture. They are initially recognized at fair value less transaction costs. Subsequently, they are measured at amortized cost using the effective interest method.

Financial liabilities are classified as current liabilities if payment is due within twelve months. Otherwise, they are presented as non-current liabilities.

- **Derivative financial instruments:** Derivative financial instruments are comprised of the embedded derivative representing the conversion option of the convertible debenture. The embedded derivative has been classified as held-for-trading and is included in the consolidated statement of financial position within the convertible debenture. It is classified as non-current based on the contractual terms specific to the instrument. Gains and losses on re-measurement of the embedded derivative are recognized in the consolidated statements of loss.

Opsens Inc.

Notes to Consolidated Financial Statements Years ended August 31, 2013 and 2012

2. Summary of Significant Accounting Policies (continued)

Financial Instruments (continued)

b) *Impairment of financial assets*

A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor and indications that a debtor or issuer will enter bankruptcy.

c) *Compound Financial Instrument*

The compound financial instrument issued by the Company consists of the convertible debenture that can be converted into common shares of the Company at the option of the holder. Since the debenture is convertible into shares and contains a cash settlement feature, as described in note 14, it is accounted for as a compound instrument with a debt component and a separate embedded derivative representing the conversion option also classified as a liability. 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 in the consolidated statements of loss.

3. Critical Accounting Estimates, Assumptions and Judgments

The preparation of the Company's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in a material adjustment to the carrying value of the asset or liability affected. The estimates, assumptions and judgments that have a risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below:

Inventories

The Company states its inventories at the lower of cost, determined with the weighted-average cost basis method, and net realizable value, and provides reserves for excess and obsolete inventories. The Company determines its reserves for excess and obsolete inventories based on the quantities on hand at the reporting dates, compared to foreseeable needs over the next twelve months, taking into account changes in demand, technology or market.

Useful Life of Depreciable Assets

Management reviews the useful life of depreciable assets at each reporting date. As at August 31, 2013, management assesses that the useful lives represent the expected utility of the assets to the Company. The carrying amounts are presented in notes 7 and 8. Actual results, however, may vary due to technical obsolescence or changes in the market, particularly for computer equipment and software.

Impairment of Goodwill

The Company performs an annual test for goodwill impairment, or when there is any indication that goodwill has suffered impairment, in accordance with the accounting policy stated in the summary of significant accounting policies of the consolidated financial statements. The recoverable amounts of CGUs have been determined based on fair value less costs to sell calculations using the discounted future cash flows method and the market-based method. These calculations require the use of estimates, such as assumptions and judgments, and determination of CGUs. Information on goodwill is presented in note 9.

Opsens Inc.

Notes to Consolidated Financial Statements

Years ended August 31, 2013 and 2012

3. Critical Accounting Estimates, Assumptions and Judgments (continued)

Government Assistance and Research and Development Tax Credits

Government assistance and research and development tax credits are recorded in the consolidated financial statements when there is reasonable assurance that the Company has complied with, and will continue to comply with, all of the conditions necessary to obtain the government assistance and research and development tax credits.

Warranty Provision

The Company estimated warranty provision based on the history of defective products and the probability that these defects will arise, as well as the related costs.

Revenue Recognition

Delivery generally occurs when the product is handed over to a transporter for shipment. At the time of the transaction, the Company assesses whether the price associated with its revenue transaction is fixed or determinable and whether or not collection is reasonably assured. The Company assesses collection based on a number of factors, including past transaction history and the creditworthiness of the customer.

Stock-based Compensation

The Company uses judgment in assessing expected life, volatility, risk-free interest rate, as well as the estimated number of options that will ultimately vest.

For all these items, relevant accounting policies are discussed in the other parts of note 2.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised if the revision affects only that period or in the period of the revision and future periods, if the revision affects both the current and future periods.

4. Future Accounting Changes

Financial Instruments

a. IFRS 9, "Financial Instruments"

IFRS 9, "Financial Instruments" was issued in November 2009 and addresses the classification and measurement of financial assets. It replaces the multiple category and measurement models in IAS 39, "Financial Instruments: Recognition and Measurement", for debt instruments with a new mixed measurement model consisting of only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments. Such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. Where equity instruments are measured at fair value through other comprehensive income, dividends are recognized in profit or loss to the extent that they do not clearly represent a return on investment. However, other gains and losses (including impairment losses) related to such instruments remain in accumulated other comprehensive income indefinitely. Requirements for financial liabilities were added to IFRS 9 in October 2010, largely carrying forward existing requirements in IAS 39, except that changes in fair value due to credit risk for liabilities designated at fair value through profit or loss are generally recorded in other comprehensive income. In July 2013, the International Accounting Standards Board ("IASB") confirmed that the January 1, 2015 initial adoption date will be deferred. The Company is currently evaluating the impact of adopting this new standard on its financial statements. The Company does not intend to opt for early adoption.

Opsens Inc.

Notes to Consolidated Financial Statements

Years ended August 31, 2013 and 2012

4. Future Accounting Changes (continued)

Financial Instruments (continued)

b. IAS 32, "Financial Instruments : Presentation"

In December 2011, the IASB issued amendments to IAS 32, "Financial Instruments: Presentation", clarifying the requirements for offsetting financial assets and liabilities. The amendments will be effective for fiscal years beginning on or after January 1, 2014. The IASB also issued amendments to IFRS 7, "Financial Instruments: Disclosure", improving disclosure on offsetting of financial assets and liabilities. IFRS 7 will be effective for annual and interim periods beginning on or after January 1, 2013 and IAS 32 will be effective for annual periods beginning on or after January 1, 2014. The Company is currently evaluating the impact of adopting these amendments on its financial statements. The Company does not intend to opt for early adoption.

Consolidation

In May 2011, the IASB issued the following standards: IFRS 10, "Consolidated Financial Statements", IFRS 11, "Joint Arrangements" and IFRS 12, "Disclosure of Interests in Other Entities". Each of the new standards is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted. The Company has assessed that the new and amended standards will have no significant impact on the consolidated financial statements and decided not to early adopt any of the new requirements.

a. IFRS 10, "Consolidated Financial Statements"

IFRS 10, "Consolidated Financial Statements," requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when a company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces Standing Interpretations Committee ("SIC") 12, "Consolidation - Special Purpose Entities" and parts of IAS 27, "Consolidated and Separate Financial Statements".

b. IFRS 11, "Joint Arrangements"

IFRS 11, "Joint Arrangements" requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operations. Joint ventures will be accounted for using the equity method of accounting while for a joint operation the venturer will recognize its share of the assets, liabilities, revenues and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 replaces IAS 31, "Interests in Joint Ventures" and SIC 13, "Jointly Controlled Entities - Non-monetary Contributions by Venturers."

c. IFRS 12, "Disclosure of Interests in Other Entities"

IFRS 12, "Disclosure of Interests in Other Entities", establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles and off consolidated statement of financial position vehicles. This standard carries forward existing disclosures and also introduces significant additional disclosures requirements that address the nature of, and risks associated with, an entity's interests in other entities.

Opsens Inc.

Notes to Consolidated Financial Statements Years ended August 31, 2013 and 2012

4. Future Accounting Changes (continued)

Fair Value Measurement

IFRS 13, "Fair Value Measurement", is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures.

This new standard applies to fiscal years beginning on or after January 1, 2013. The Company is currently evaluating the impact of adopting this new standard on its financial statements. The Company does not intend to opt for early adoption.

5. Trade and other receivables

	As of August 31, 2013	As of August 31, 2012
	\$	\$
Trade	836,570	724,383
Allowance for doubtful accounts	(21,000)	(21,861)
Sales taxes receivable	40,041	38,075
Government assistance receivable	104,246	160,714
Total	959,857	901,311

Allowance for doubtful accounts variation

	Years ended August 31,	
	2013	2012
	\$	\$
Balance – Beginning of year	(21,861)	(3,082)
Unused amounts reversed during the year	861	-
Additional provisions recognized	-	(18,779)
Balance – End of year	(21,000)	(21,861)

6. Inventories

	As of August 31, 2013	As of August 31, 2012
	\$	\$
Raw materials	1,234,566	795,918
Finished goods	1,793,740	1,183,155
Total	3,028,306	1,979,073

Opsens Inc.

Notes to Consolidated Financial Statements

Years ended August 31, 2013 and 2012

7. Property, Plant and Equipment

	Office furniture and equipment	Leased office furniture and equipment	Production equipment	Leased automotive equipment	Research and development equipment, net of income tax credits and government assistance of \$55,303	Research and development computer equipment, net of income tax credits of \$3,078	Computer equipment	Leasehold improvements	Total
	\$	\$	\$	\$	\$	\$	\$	\$	\$
Cost									
Balance at August 31, 2012	103,407	8,326	607,245	59,028	889,852	30,979	185,653	111,091	1,995,581
Additions	4,031	-	329,036	-	84,027	6,585	31,548	17,561	472,788
Balance at August 31, 2013	107,438	8,326	936,281	59,028	973,879	37,564	217,201	128,652	2,468,369
Accumulated depreciation									
Balance at August 31, 2012	57,118	7,071	165,456	42,542	647,308	29,585	173,076	60,283	1,182,439
Depreciation	8,078	833	114,787	8,433	94,940	2,470	14,994	42,934	287,469
Balance at August 31, 2013	65,196	7,904	280,243	50,975	742,248	32,055	188,070	103,217	1,469,908
Net book value									
at August 31, 2013	42,242	422	656,038	8,053	231,631	5,509	29,131	25,435	998,461

Opsens Inc.

Notes to Consolidated Financial Statements Years ended August 31, 2013 and 2012

7. Property, Plant and Equipment (continued)

	Office furniture and equipment	Leased office furniture and equipment	Production equipment	Leased automotive equipment	Research and development equipment, net of income tax credits and government assistance of \$23,834	Research and development computer equipment, net of income tax credits of \$3,078	Computer equipment	Leasehold improvements	Total
	\$	\$	\$	\$	\$	\$	\$	\$	\$
Cost									
Balance at August 31, 2011	89,320	8,326	405,209	59,028	828,610	30,599	180,691	92,180	1,693,963
Additions	14,087	-	202,036	-	61,242	380	4,962	18,911	301,618
Balance at August 31, 2012	103,407	8,326	607,245	59,028	889,852	30,979	185,653	111,091	1,995,581
Accumulated depreciation									
Balance at August 31, 2011	49,769	6,757	89,135	35,476	560,253	27,776	149,230	33,919	952,315
Depreciation	7,349	314	76,321	7,066	87,055	1,809	23,846	26,364	230,124
Balance at August 31, 2012	57,118	7,071	165,456	42,542	647,308	29,585	173,076	60,283	1,182,439
Net book value at August 31, 2012	46,289	1,255	441,789	16,486	242,544	1,394	12,577	50,808	813,142

Opsens Inc.

Notes to Consolidated Financial Statements

Years ended August 31, 2013 and 2012

8. Intangible Assets

	Indefinite lives – Trademarks	Limited lives – Patents	Limited lives – software, net of income tax credits of \$1,518	Internally developed Limited lives – Patents	Total
	\$	\$	\$	\$	\$
Cost					
Balance as at August 31, 2012	200	30,000	61,056	423,070	514,326
Additions	-	-	6,589	68,650	75,239
Balance as at August 31, 2013	200	30,000	67,645	491,720	589,565
Accumulated amortization					
Balance as at August 31, 2012	-	-	49,439	114,702	164,141
Amortization	-	-	5,784	25,219	31,003
Balance as at August 31, 2013	-	-	55,223	139,921	195,144
Net book value					
as at August 31, 2013	200	30,000	12,422	351,799	394,421

	Indefinite lives – Trademarks	Limited lives – Patents	Limited lives – software, net of income tax credits of \$1,518	Internally developed Limited lives – Patents	Total
	\$	\$	\$	\$	\$
Cost					
Balance as at August 31, 2011	200	-	49,795	327,630	377,625
Additions	-	30,000	11,261	95,440	136,701
Balance as at August 31, 2012	200	30,000	61,056	423,070	514,326
Accumulated amortization					
Balance as at August 31, 2011	-	-	46,152	83,431	129,583
Amortization	-	-	3,287	31,271	34,558
Balance as at August 31, 2012	-	-	49,439	114,702	164,141
Net book value					
as at August 31, 2012	200	30,000	11,617	308,368	350,185

Opsens Inc.

Notes to the Consolidated Financial Statements Years ended August 31, 2013 and 2012

9. Goodwill

The Company performs its annual test for goodwill in the fourth quarter, in accordance with its policy described in note 2. For the purposes of the impairment test, goodwill was entirely allocated to Opsens Solutions Inc.'s CGU. The recoverable value of the CGU of Opsens Solutions Inc. was based on fair value less cost to sell. The fair value less cost to sell approach is predicated on the value of the future cash flows that a business will generate going forward. The discounted cash flow method is used, which involves projecting cash flows and converting them into a present value through discounting. The discounting performed uses a rate of return that is commensurate with the risk associated with the business and the time value of money. This approach requires assumptions about revenue growth rates, operating margins, tax rates and discount rates.

Revenue growth rates and operating margins are based on the Company's approved budget. The Company projects revenue, operating margins and cash flows for a period of five years, and applies a perpetual long-term growth rate thereafter. In arriving at its forecasts, the Company considers past experience, economic trends such as inflation, as well as industry and market trends. The projections also take into account the expected impact of new product and service initiatives. The Company assumes a discount rate to calculate the present value of projected cash flows, representing a pre-tax discount rate using a weighted-average cost of capital ("WACC") for the Company, adjusted for income taxes, and is an estimate of the total overall required rate of return on an investment for both debt and equity owners. Determination of the WACC requires separate analysis of the cost of equity and debt, and considers a risk premium based on an assessment of risks related to the projected cash flows of the Company.

The Company projects cash flows net of income taxes using enacted or substantively enacted tax rates effective during the forecast periods. Tax assumptions are sensitive to changes in tax laws as well as assumptions about the jurisdictions in which profits are earned. It is possible that actual tax rates could differ from those assumed.

The determination of the value in use was based on the following key assumptions:

	As of August 31, 2013	As of August 31, 2012
	%	%
Growth rate	4	4
Long-term growth rate	4	4
Discount rate	17.9	17.9

Based on the discounted cash flow calculations, the recoverable amount of Opsens Solutions Inc.'s CGUs exceeded its carrying value. The recoverable amount of Opsens Solutions Inc.'s CGU amounted to \$4,445,000 as at August 31, 2013 and 2012.

Opsens Inc.

Notes to the Consolidated Financial Statements Years ended August 31, 2013 and 2012

10. 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 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 insured 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. The credit line was not used as at August 31, 2013 and 2012.

The Company also has credit cards for a maximum of \$85,000 to finance its current operations. The balance used on these credit cards bears interest at the financial institution's prime rate plus 7%.

11. Accounts payable and accrued liabilities

	As of August 31, 2013	As of August 31, 2012
	\$	\$
Suppliers	982,136	541,637
Salaries, employee benefits and others	375,681	314,924
Other liabilities	684,246	487,344
Total	2,042,063	1,343,905

12. Deferred Revenues

On November 19, 2012, the Company announced the granting of distribution and other rights for 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 14 of these consolidated financial statements.

Opsens Inc.

Notes to the Consolidated Financial Statements Years ended August 31, 2013 and 2012

12. Deferred Revenues (continued)

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 consolidated statement of financial position.

13. Long-term Debt

	As of August 31, 2013	As of August 31, 2012
	\$	\$
Desjardins Loan, bearing interest at prime rate plus 2.4%, payable in monthly instalments of \$10,905 and a final payment of \$9,286, maturing in February 2016	325,524	456,382
Contributions repayable to Ministère des Finances et de l'Économie (MFE), without interest, repayable in five equal and consecutive annual instalments of \$49,875, maturing in September 2018		
Debt balance	249,377	249,377
Imputed interest	(74,863)	(108,409)
	174,514	140,968
Term loans, bearing interest at rates varying from 5.69% to 6.79%, payable in monthly instalments of \$3,161, including interest, maturing in November and December 2017	140,718	-
Amounts carried forward	640,756	597,350

Opsens Inc.

Notes to the Consolidated Financial Statements Years ended August 31, 2013 and 2012

13. Long-term Debt (continued)

	As of August 31, 2013	As of August 31, 2012
	\$	\$
Amounts carried forward	640,756	597,350
Contributions repayable to Canada Economic Development, without interest, repayable in twenty equal and consecutive quarterly instalments of \$7,408, maturing in August 2020		
Debt balance	148,158	-
Imputed interest	(64,293)	-
	83,865	-
Capital lease, bearing interest at 7.25%, payable in monthly instalments of \$1,029, including interest, and a final payment of \$1,029, maturing in September 2016	34,011	43,522
Capital lease, bearing interest at 9.7%, payable in monthly instalments of \$837, including interest, and a final payment of \$837, maturing in April 2014	6,472	15,420
Contributions repayable to Canada Economic Development, without interest, repayable in five equal and consecutive annual instalments of \$39,567 and \$20,000, matured in June 2013		
Debt balance	-	19,996
Imputed interest	-	(3,772)
	-	16,224
Capital lease, bearing interest at 13.5%, payable in monthly instalments of \$140, including interest, and a final payment of \$740, matured in October 2012	-	864
	765,104	673,380
Current portion	177,285	166,404
	587,819	506,976

Opsens Inc.

Notes to the Consolidated Financial Statements Years ended August 31, 2013 and 2012

13. Long-term Debt (continued)

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

	Obligations – Capital lease			Other debts	Debt and principal portion of capital lease
	Total payments	Imputed interest	Principal payments		
	\$	\$	\$	\$	\$
2014	19,053	2,364	16,689	160,596	177,285
2015	12,350	1,362	10,988	162,555	173,543
2016	12,350	540	11,810	139,588	151,398
2017	992	6	986	74,553	75,539
2018	-	-	-	58,689	58,689

Under the terms and conditions of the agreement on long-term debt with its financial institution, the Company is subject to certain covenants with respect to maintaining minimum financial ratios. As at August 31, 2013 and 2012, these financial ratios were met by the Company.

14. Convertible Debenture

	As of August 31, 2013	As of August 31, 2012
	\$	\$
Debt component reported as long-term liability (US\$1,990,316)	2,095,799	-
Embedded derivative reported as long-term liability (US\$32,300)	34,012	-
Total	2,129,811	-

On November 19, 2012, the Company issued a US\$2,000,000 (\$2,002,000) 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.

Opsens Inc.

Notes to the Consolidated Financial Statements Years ended August 31, 2013 and 2012

14. Convertible Debenture (continued)

To secure the repayment of the convertible debenture, a movable hypothec on certain equipment has been given. As at August 31, 2013, the net book value of property, plant and equipment pledged as collateral was \$66,000 (\$99,300 as at August 31, 2012). 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.

Financial expenses (revenues) associated with the debenture consist of:

	Years ended August 31,	
	2013	2012
	\$	\$
Interest expense on face value	33,069	-
Notional interest representing accretion	7,639	-
Change in fair value of embedded derivative	(17,005)	-
Total	23,703	-

As at August 31, 2013, the convertible debenture has an estimated fair value of \$1,338,000.

15. Share Capital, Stock-Options and Warrants

a) Share capital

Authorized, unlimited number

Common shares, voting and participating, without par value

Issued and fully paid

	Number	Amount
		\$
Balance as at August 31, 2013 and 2012	47,865,983	15,201,618

Opsens Inc.

Notes to the Consolidated Financial Statements Years ended August 31, 2013 and 2012

15. Share Capital, Stock-Options and Warrants (continued)

b) Stock options

The Shareholders approved the stock option plan on January 21, 2013 because, according to the policies of the TSX Venture Exchange, the stock option plan must be approved by the Company's shareholders every year. 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 the TSX Venture Exchange. The exercise period cannot exceed five years, beginning on the grant date. These options generally vest over a four-year period, except for 580,000 outstanding options granted, which were completely vested at grant date. The exercise price of the options is the closing price of the shares of the Company on the TSX Venture on the trading day immediately preceding the date of grant.

The compensation expense in regards to the stock option plan for the year ended August 31, 2013 is \$125,522 (\$137,089 for the year ended August 31, 2012).

The fair value of options granted in 2013 was determined using the Black-Scholes option pricing model with the following assumptions:

	Years ended August 31,	
	2013	2012
Risk-free interest rate	Between 1.20% and 1.72%	Between 0.93% and 1.25%
Expected volatility	Between 89% and 134%	Between 62% and 88%
Expected dividend yield on shares	Nil	Nil
Duration	5 years	5 years
Weighted share price	\$0.24	\$0.22
Weighted fair value per option at the grant date	\$0.15	\$0.12

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 expected volatility is based on the historical volatility of the underlying share price for a period equivalent to the expected remaining life of the options.

Opsens Inc.

Notes to the Consolidated Financial Statements Years ended August 31, 2013 and 2012

15. Share Capital, Stock-Options and Warrants (continued)

b) Stock options (continued)

The situation of the outstanding stock option plan and the changes that took place between August 31, 2011 and August 31, 2013 are as follows:

	Number of options	Weighted- average exercise price \$
Outstanding as at August 31, 2011	4,177,000	0.51
Options granted	1,684,000	0.22
Options forfeited	(1,350,000)	0.47
Options cancelled	(1,092,000)	0.47
Outstanding as at August 31, 2012	3,419,000	0.39
Options granted	1,483,667	0.24
Options forfeited	(715,000)	0.77
Options cancelled	(46,000)	0.22
Outstanding as at August 31, 2013	4,141,667	0.27
Options exercisable as at August 31, 2013	1,500,313	0.33

The table below provides information on the outstanding stock options as at August 31, 2013:

Exercise price \$	Number of outstanding stock options	Number of exercisable stock options	Weighted-average remaining contractual life (years)
0.20	813,000	265,750	3.85
0.21	250,000	-	4.36
0.23	870,000	292,500	3.21
0.24	80,000	80,000	4.24
0.25	1,103,667	-	4.39
0.35	278,000	169,000	2.84
0.36	115,750	86,813	1.71
0.37	181,250	181,250	0.62
0.38	250,000	225,000	2.08
0.40	90,000	90,000	0.27
0.60	50,000	50,000	0.82
0.64	50,000	50,000	0.79
1.15	10,000	10,000	1.21
	4,141,667	1,500,313	3.37

Opsens Inc.

Notes to the Consolidated Financial Statements Years ended August 31, 2013 and 2012

15. Share Capital, Stock-Options and Warrants (continued)

c) Warrants

The situation of the outstanding warrants and the changes that took place between August 31, 2011 and August 31, 2012 are as follows:

	Number of warrants	Weighted- average exercise price
Outstanding as at August 31, 2011	2,443,049	\$ 1.11
Warrants expired	(2,443,049)	1.11
Outstanding as at August 31, 2012	-	-
Warrants exercisable as at August 31, 2012	-	-

i) Warrants expired

During the year ended August 31, 2012, 2,443,049 warrants entitling its holder to acquire one common share of the Company at an average price of \$1.11 per share expired.

16. Loss per Share

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

	Years ended August 31,	
	2013	2012
	\$	\$
Net loss attributable to shareholders		
Basic and diluted	(2,365,825)	(1,929,678)
Number of shares		
Basic and diluted weighted-average number of shares outstanding	47,865,983	47,865,983
Amount per share		
Net loss per share		
Basic	(0.05)	(0.04)
Diluted	(0.05)	(0.04)

Opsens Inc.

Notes to the Consolidated Financial Statements Years ended August 31, 2013 and 2012

16. Loss per Share (continued)

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:

	Years ended August 31,	
	2013	2012
Stock options	1,025,000	1,745,000
Warrants	-	2,443,049

For the years ended August 31, 2013 and 2012, the diluted amount per share was the same amount as the basic amount per share, since the dilutive effect of the stock options and convertible debenture was not included in the calculation; otherwise, the effect would have been antidilutive. Accordingly, the diluted amount per share for these years was calculated using the basic weighted average number of shares outstanding.

17. Additional Information on the Statements of Cash Flows

	Years ended August 31,	
	2013	2012
	\$	\$
<i>Changes in non-cash operating working capital items</i>		
Trade and other receivables	(58,546)	(316,137)
Income tax credits receivable	(265,691)	(30,248)
Work in progress	(55,491)	-
Inventories	(1,049,233)	(208,464)
Prepaid expenses	(48,899)	(8,129)
Accounts payable and accrued liabilities	698,158	372,797
Warranty provision	60,510	9,541
Deferred revenues	2,053,188	-
	1,333,996	(180,640)
	As of August 31, 2013	As of August 31, 2012
	\$	\$

Cash and cash equivalents

Cash	687,881	1,292,845
Short-term investments	2,974,378	1,283,741
	3,662,259	2,576,586

Opsens Inc.

Notes to the Consolidated Financial Statements Years ended August 31, 2013 and 2012

18. Commitments

Leases

The Company leases offices in Québec under operating leases expiring on January 31, 2015. These agreements are renewable for an additional four-year period. Future rent, without considering the escalation clause, will amount to \$310,254.

The Company leases offices in Alberta under an operating lease expiring on April 30, 2015. This agreement is renewable for an additional five-year period. Future rent, without considering the escalation clause, will amount to \$220,280.

Opsens Solutions Inc. rents five vehicles under operating leases expiring in September 2013, October 2013, May 2014 and July 2015. Future rent payments will amount to \$30,664.

Future payments for the leases and other commitments, totalling \$561,198, required in each of the forthcoming years are as follows:

	\$
2014	363,530
2015	197,668

In 2013, the offices lease expense is \$367,188 (\$295,221 in 2012).

Licence

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

19. Contractual Guarantees

During the normal course of business, the Company replaces defective parts under warranties offered at the sale of the products. The term of the warranties is generally 12 months. During the year ended August 31, 2013, the Company recognized an expense of \$158,470 (\$99,741 for the year ended August 31, 2012) for guarantees. A provision for \$144,783 is recorded for guarantees as of August 31, 2013 (\$84,273 as at August 31, 2012). The following table summarizes changes in warranty provision:

	Years ended August 31,	
	2013	2012
	\$	\$
Balance – Beginning of year	84,273	74,732
Additional provisions recognized	158,470	99,741
Amounts used during the year	(97,960)	(90,200)
Balance – End of year	144,783	84,273

This provision estimate is based on past experience. 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.

Opsens Inc.

Notes to the Consolidated Financial Statements Years ended August 31, 2013 and 2012

20. Government Assistance

Under an agreement entered into with Canada Economic Development (CED), the Company may receive a refundable contribution of a maximum amount of \$300,000, non-interest bearing, to cover expenses related to the development of its OptoWire product for the Fractional Flow Reserve market. This contribution is paid out based on the project's percentage of completion at the rate of 40% of eligible expenses since February 1, 2013. During the year ended August 31, 2013, the Company recognized for this refundable contribution an amount of \$57,554 against research and development expenses. As at August 31, 2013, an amount of \$150,000 remained to be received under the agreement.

Under an agreement reached with the National Research Council Canada with respect to the Industrial Research Assistance Program (IRAP), the Company may receive a non-refundable contribution for a maximum amount of \$262,500 to cover some of its incurred costs to develop a new product. During the year ended August 31, 2013, the Company recorded contributions totalling \$183,486 which were accounted against research and development expenses.

Under an agreement reached with the Ministère des Finances et de l'Économie, the Company was granted a non-refundable contribution of \$100,000 to cover some of its expenses incurred for the market development of its products. For the year ended August 31, 2012, the Company recorded contributions of \$44,502 and \$23,533, which were accounted respectively against marketing expenses and administration expenses.

Under an agreement reached with the Ministère des Finances et de l'Économie, the Company was granted a refundable contribution of \$413,590, non-interest bearing, to cover some of its incurred costs to carry out development of the OptoWire for Fractional Flow Reserve. For the year ended August 31, 2012, the Company recorded for this refundable contribution of \$78,717 against research and development expenses. As at August 31, 2013, \$164,213 remains to be received under the agreement.

21. Income Taxes

The reconciliation of the income tax provision calculated using the combined Canadian federal and provincial statutory income tax rate with the income tax provision in the financial statements is as follows:

	<u>Years ended August 31,</u>	
	<u>2013</u>	<u>2012</u>
	\$	\$
Income tax payable using the combined federal and provincial statutory tax rate (26.9%; 27.0% in 2012)	(637,820)	(528,075)
Non-deductible expenses	444,611	429,523
Deductible financing fees	(28,995)	(51,139)
Taxable income	269,269	-
Non-taxable income tax credits	(86,953)	(111,408)
Losses carried forward	39,888	261,099
Income tax using effective income tax rate	-	-

Opsens Inc.

Notes to the Consolidated Financial Statements Years ended August 31, 2013 and 2012

21. Income Taxes (continued)

As at August 31, 2013, the Company has tax losses of approximately \$8,685,400 for federal purposes and \$8,373,900 for provincial purposes that can be used to reduce future taxable income. These losses expire as follows:

	Federal	Provincial
	\$	\$
2024	515,000	463,000
2025	42,000	40,000
2026	400	400
2027	1,552,000	1,509,000
2028	716,000	692,000
2029	1,404,000	1,214,000
2030	500,000	500,000
2031	2,123,000	2,122,500
2032	1,282,000	1,281,000
2033	551,000	552,000
	<u>8,685,400</u>	<u>8,373,900</u>

The Company also has undeducted research and development expenses of \$4,825,000 for federal purposes and \$7,266,000 for provincial purposes that are deferred over an undetermined period.

Deferred income tax assets related to unclaimed tax losses, financing costs and research and development expenses as well as non-refundable scientific research tax credits adding up to approximately \$5,488,000 were entirely provisioned due to the uncertainty concerning the Company's ability to generate taxable income. In addition, deferred tax liabilities of approximately \$391,408 related to federal investment tax credits, property, plant and equipment were recognized and offset by a deferred income tax asset.

22. Income Tax Credits for Scientific Research and Experimental Development

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

	Years ended August 31,	
	2013	2012
	\$	\$
Federal	1,122,674	1,225,609
Provincial	1,122,674	1,230,765

Opsens Inc.

Notes to the Consolidated Financial Statements Years ended August 31, 2013 and 2012

22. Income Tax Credits for Scientific Research and Experimental Development (continued)

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

	Years ended August 31,	
	2013	2012
	\$	\$
Federal	-	-
Provincial	265,691	327,882
	265,691	327,882

These credits were recorded in research and development expenses in the consolidated statement of loss.

Reimbursable scientific research income tax credits earned for the year ended August 31, 2013 have not yet been reviewed by the taxation authorities, and the amounts granted could differ from those that have been recorded.

Over the years, the Company qualified for federal income tax credits for scientific research and experimental development, which were non-refundable and could be used against Part I Company tax. The accumulated credits for the year ended August 31, 2013 are about \$1,607,749 and expire over a period of 10 to 20 years beginning in 2014.

23. Segmented Information

Sector's Information

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

Opsens Inc.

Notes to the Consolidated Financial Statements Years ended August 31, 2013 and 2012

23. Segmented Information (continued)

Sector's Information (continued)

The 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 amount, which approximates prevailing prices in the markets.

	Years ended August 31,					
	2013			2012		
	Opsens Inc.	Opsens Solutions Inc.	Total	Opsens Inc.	Opsens Solutions Inc.	Total
	\$	\$	\$	\$	\$	\$
External sales	1,773,715	5,752,707	7,526,422	2,179,251	6,282,679	8,461,930
Internal sales	1,369,950	-	1,369,950	1,260,182	-	1,260,182
Depreciation of property, plant and equipment	168,953	118,516	287,469	148,492	81,632	230,124
Amortization of intangible assets	25,294	5,709	31,003	30,425	4,133	34,558
Financial expenses (revenues)	(193,991)	293,764	99,773	(371,978)	275,611	(96,367)
Net profit (net loss)	(2,440,218)	74,393	(2,365,825)	(1,895,102)	(34,576)	(1,929,678)
Acquisition of property, plant and equipment	159,202	313,586	472,788	88,871	212,747	301,618
Additions to intangible assets	74,639	600	75,239	91,943	44,758	136,701
Segment assets	6,150,782	4,377,345	10,528,127	4,741,097	2,993,942	7,735,039
Segment liabilities	6,042,685	1,092,264	7,134,949	1,593,538	508,020	2,101,558

Geographic sector's information

	Years ended August 31,	
	2013	2012
	\$	\$
Revenue per geographic sector		
Canada	5,825,550	6,396,767
United States	571,160	1,297,038
Other*	1,129,712	768,125
	7,526,422	8,461,930

* Comprised of revenues generated in countries for which amounts are individually not significant.

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.

Opsens Inc.

Notes to the Consolidated Financial Statements Years ended August 31, 2013 and 2012

23. Segmented Information (continued)

Geographic sector's information (continued)

During the year ended August 31, 2013, revenues from three clients represented individually more than 10% of the total revenues of the Company, i.e. approximately 49.4% (Opsens Solutions Inc.'s reportable segment), 12.2% (Opsens Solutions Inc.'s reportable segment) and 10.3% (Opsens Solutions Inc.'s reportable segment).

During the year ended August 31, 2012, revenues from two clients represented individually more than 10% of the total revenues of the Company, i.e. approximately 47.4% (Opsens Solutions Inc.'s reportable segment) and 18.2% (Opsens Solutions Inc.'s reportable segment).

24. Related-party Transactions

In the normal course of its operations, the Company has entered into transactions with related parties.

	Years ended August 31,	
	2013	2012
	\$	\$
Professional fees due to a company		
controlled by a director	34,216	34,937
	34,216	34,937

Fees are incurred for the Company's Fractional Flow Reserve (FFR) activities.

Key management personnel, having authority and responsibility for planning, directing and controlling the activities of the Company, comprise the Chief Executive Officer, the Chief Financial Officer, the President of Opsens Solutions Inc. and other vice presidents. Compensation of key management personnel during the year was as follows:

	Years ended August 31,	
	2013	2012
	\$	\$
Short-term salaries and other benefits	885,879	857,181
Option-based awards	154,348	86,683
	1,040,227	943,864

The compensation of key executives is determined by the Human Resources Committee, taking into consideration individual performance and market trends.

Opsens Inc.

Notes to the Consolidated Financial Statements Years ended August 31, 2013 and 2012

25. Additional Information to the Statements of Loss and Comprehensive Loss

Expenses (revenues) included in functions	Years ended August 31,	
	2013	2012
	\$	\$
Salaries & Other Benefits	4,816,921	4,198,650
Cost of sales		
Administrative		
Marketing		
Research and development		
Depreciation of Property, Plant and Equipment	287,469	230,124
Cost of sales		
Administrative		
Marketing		
Research and development		
Amortization of Intangible Assets	31,003	34,558
Cost of sales		
Administrative		
Marketing		
Research and development		
Government Assistance	(241,040)	(146,752)
Administrative		
Marketing		
Research and development		
Income tax credits for research and development	(265,691)	(327,882)
Research and development		

Opsens Inc.

Notes to the Consolidated Financial Statements Years ended August 31, 2013 and 2012

26. Financial Instruments

Fair Value

The fair value of cash and cash equivalents, trade and other receivables and accounts payable and accrued liabilities approximates their carrying value due to their short-term maturities.

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

The fair value of the convertible debenture 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 the convertible debenture approximates \$1,338,000 as at August 31, 2013.

Valuation Techniques and Assumptions Applied for the Purposes of Measuring Fair Value

The Company must maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The Company primarily applies the market approach for recurring fair value measurements. The three input levels used by the Company to measure fair value are the following:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities. An active market for the asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 – Quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The following table summarizes the fair value hierarchy under which the Company's financial instruments are valued.

	As at August 31, 2013			
	Total	Level 1	Level 2	Level 3
	\$	\$	\$	\$
Financial assets (liabilities) measured at fair value:				
Convertible debenture – embedded derivative	(34,012)	-	(34,012)	-

As at August 31, 2012, there were no assets or liabilities measured at fair value.

Opsens Inc.

Notes to the Consolidated Financial Statements Years ended August 31, 2013 and 2012

26. Financial Instruments (continued)

Valuation Techniques and Assumptions Applied for the Purposes of Measuring Fair Value

As explained in Note 14, the convertible debentures contain an embedded derivative that must be measured at fair value at each reporting date with gains and losses in fair value recognized through profit or loss. One of the most significant assumptions impacting the Company's valuation of these embedded derivatives is the implied volatility. For 2013, the Company used an implied volatility of 122%. A 1% change in the implied volatility factor would have changed the fair value of the embedded derivative by \$321.

Risk Management

The main risks arising from the Company's financial instruments are credit risk, liquidity risk, interest rate risk and foreign exchange risk. These risks arise from exposures that occur in the normal course of business and are managed on a consolidated Company basis.

Credit Risk

Credit risk is the risk of an unexpected loss if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company regularly monitors credit risk exposure and takes steps to mitigate the likelihood of this exposure resulting in losses. The Company's exposure to credit risk currently relates to cash and cash equivalents and to trade and other receivables. The Company's credit risk management policies include the authorization to carry out investment transactions with recognized financial institutions with credit ratings of at least A and higher, in either bonds, money market funds or guaranteed investment certificates. Consequently, the Company manages credit risk by complying with established investment policies.

The credit risk associated with trade and other receivables is generally considered normal since the majority of its customers are well-established and financed oil and gas companies. Generally, the Company does not require collateral or other security from customers for trade accounts receivable; however, credit is extended following an evaluation of creditworthiness. In addition, the Company performs ongoing credit reviews of all of its customers and establishes an allowance for doubtful accounts when accounts are determined to be uncollectible. Two major customers represent 64.4% of the Company's accounts receivable as at August 31, 2013 (71.4% as at August 31, 2012).

As at August 31, 2013, 12.8% (25.1% as at August 31, 2012) of the accounts receivable were of more than 90 days whereas 42.8% (60.5% as at August 31, 2012) of those were less than 30 days. The maximum exposure to the risk of credit for accounts receivable corresponded to their book value. As at August 31, 2013, the allowance for doubtful accounts was established at \$21,000 (\$21,861 as at August 31, 2012).

Management considers that substantially all receivables are fully collectible as most of our customers are large corporations with good credit standing and no history of default.

The maximum exposure to credit risk approximates the amount recognized in the consolidated statement of financial position.

Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities that are settled in cash or another financial asset. The Company's approach is to ensure it will have sufficient liquidity to meet operational, capital and regulatory requirements and obligations, under both normal and stressed circumstances. Cash flow projections are prepared and reviewed quarterly by the Board of Directors to ensure a sufficient continuity of funding. The funding strategies used to manage this risk include turning to capital markets to carry out issues of equity and debt securities.

Opsens Inc.

Notes to the Consolidated Financial Statements Years ended August 31, 2013 and 2012

26. Financial Instruments (continued)

Liquidity Risk (continued)

The following are the contractual maturities of the financial liabilities (principal and interest, assuming current interest rates) as at August 31, 2013 and August 31, 2012:

August 31, 2013	Carrying amount	Cash flows	0 to 12 months	12 to 24 months	After 24 months
	\$	\$	\$	\$	\$
Accounts payable and accrued liabilities	2,042,063	2,042,063	2,042,063	-	-
Long-term debt	765,104	943,130	201,884	181,137	560,109
Convertible debenture	2,129,811	2,316,600	-	-	2,316,600
Total	4,936,978	5,301,793	2,243,947	181,137	2,876,709

August 31, 2012	Carrying amount	Cash flows	0 to 12 months	12 months to 24 months	After 24 months
	\$	\$	\$	\$	\$
Accounts payable and accrued liabilities	1,343,905	1,343,905	1,343,905	-	-
Long-term debt	673,380	837,302	195,523	164,247	477,532
Total	2,017,285	2,181,207	1,539,428	164,247	477,532

Interest Rate Risk

The Company's exposure to interest rate risk is summarized as follows:

Cash and cash equivalents	Fixed interest rates
Trade and other receivables	Non-interest bearing
Accounts payable and accrued liabilities	Non-interest bearing
Long-term debt	Non-interest bearing, fixed and variable interest rates
Convertible debenture	Fixed interest rates

Opsens Inc.

Notes to the Consolidated Financial Statements Years ended August 31, 2013 and 2012

26. Financial Instruments (continued)

Interest rate sensitivity analysis

Interest rate risk exists when interest rate fluctuations modify the cash flows or the fair value of the Company's investments and embedded derivative. The Company owns investments with fixed interest rates. As of August 31, 2013, the Company was holding more than 81.2% (49.8% as at August 31, 2012) of its cash and cash equivalents in all-time redeemable term deposits.

For fiscal 2013, all else being equal, a hypothetical 1% interest rate increase would have had an unfavourable impact of \$3,697 on the net loss for the year ended August 31, 2013 (unfavourable impact of \$3,386 on the net loss for the year ended August 31, 2012). A hypothetical 1% interest rate decrease would have had a favourable impact of \$3,721 on the net loss for the year ended August 31, 2013 (favourable impact of \$3,386 for the year ended August 31, 2012).

Financial expenses (revenues)

	Years ended August 31,	
	2013	2012
	\$	\$
Interest and bank charges	54,108	34,500
Interest on long-term debt	39,307	27,634
Interest on convertible debenture	39,599	-
Loss (gain) on foreign currency translation	26,638	(34,184)
Interest income	(59,735)	(124,317)
	99,917	(96,367)

Concentration risk

Concentration risk exists when investments are made with multiple entities that share similar characteristics or when a large investment is made with a single entity. As of August 31, 2013 and 2012, the Company was holding 100% of its cash equivalents portfolio in all-time redeemable term deposits with the same financial institution.

Foreign exchange risk

The Company realizes certain sales and purchases and certain supplies and professional services in US dollars. Therefore, it is exposed to foreign currency fluctuations. The Company does not actively manage this risk.

Foreign currency sensitivity analysis

For the years ended August 31, 2013 and 2012, if the Canadian dollar had strengthened 10% against the US dollar with all other variables held constant, net loss would have been \$154,000 lower for the year ended August 31, 2013 (net loss would have been \$39,000 lower for the year ended August 31, 2012). Conversely, if the Canadian dollar had weakened 10% against the US dollar with all other variables held constant, net loss would have been \$154,000 higher for the year ended August 31, 2013 (net loss would have been \$39,000 higher for the year ended August 31, 2012).

Opsens Inc.

Notes to the Consolidated Financial Statements Years ended August 31, 2013 and 2012

26. Financial Instruments (continued)

Foreign currency sensitivity analysis (continued)

As at August 31, 2013 and August 31, 2012, the risk to which the Company was exposed is established as follows:

	As of August 31, 2013	As of August 31, 2012
	\$	\$
Cash and cash equivalents (US\$1,620,546)	1,706,435	498,551
Trade and other receivables (US\$186,033)	195,892	205,388
Accounts payable and accrued liabilities (US\$296,434)	(356,149)	(292,195)
Convertible debenture (US\$1,990,316)	(2,095,799)	-
Embedded derivative (US\$32,300)	(34,012)	-
Total	(583,633)	411,744

27. Capital Management

The Company's objective in managing capital, primarily composed of shareholders' equity, long-term debt and the convertible debenture, is to ensure sufficient liquidity to fund R&D activities, general and administrative expenses, working capital and capital expenditures.

In the past, the Company has had access to liquidity through non-dilutive sources, including the sale of non-core assets, investment tax credits and government assistance, interest income and public equity offerings.

As at August 31, 2013, the Company's working capital amounted to \$6,043,352, including cash and cash equivalents of \$3,662,259. The accumulated deficit at the same date was \$15,274,768. Based on the Company's assessment, which took into account current cash levels, as well as its strategic plan and corresponding budgets and forecasts, the Company believes that it has sufficient liquidity and financial resources to fund planned expenditures and other working capital needs for at least, but not limited to, the 12-month period following the statement of financial position date of August 31, 2013

The Company believes that its current liquid assets are sufficient to finance its activities in the short-term.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. Capital management objectives, policies and procedures have remained unchanged since the last fiscal year.

For the years ended August 31, 2013 and 2012, the Company has not been in default under any of its obligations regarding the long-term debt.

Opsens Inc.

Notes to the Consolidated Financial Statements Years ended August 31, 2013 and 2012

28. Approval of Consolidated Financial Statements

The consolidated financial statements were approved by the Board of Directors and authorized for issue on November 25, 2013.