Condensed Interim Consolidated Financial Statements

Opsens Inc.

Three-month periods ended November 30, 2013 and 2012
(unaudited)

Opsens Inc.
Three-month periods ended November 30, 2013 and 2012

Table of contents

Opsens Inc.

Condensed Interim Consolidated Statements of (Loss) Earnings and Comprehensive (Loss) Income

(unaudited)

	Three-month periods ended November 30,	
	2013	2012
	$	$
Revenues		
Sales	**2,201,785**	2,532,749
Cost of sales	**1,401,925**	1,314,471
Gross margin	**799,860**	1,218,278
Expenses		
Administrative	**572,906**	538,629
Marketing	**294,400**	249,365
Research and development	**506,492**	387,382
Financial expenses	**111,087**	21,673
	1,484,885	1,197,049
Net earnings (loss) and comprehensive income (loss)	**(685,025)**	21,229
Net earnings (loss) per share (Note 5)		
Basic	**(0.01)**	0.00
Diluted	**(0.01)**	0.00

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

Opsens Inc.

Condensed Interim Consolidated Statements of Changes in Equity
Three-month period ended November 30, 2013
(unaudited)

	Common shares	Stock options	**Total**	Common shares	Reserve – Stock option plan	Reserve - Warrants	Deficit	**Total**
	(number)	(number)	**(number)**	$	$	$	$	**$**
Balance as at August 31, 2013	47,865,983	4,141,667	**52,007,650**	15,201,618	1,275,946	2,190,382	(15,274,768)	**3,393,178**
Options granted	-	240,000	**240,000**	-	-	-	-	**-**
Options forfeited	-	(50,000)	**(50,000)**	-	-	-	-	**-**
Options cancelled	-	(486,667)	**(486,667)**	-	-	-	-	**-**
Fair value of stock options exercised	-	-	**-**	21,121	(21,121)	-	-	**-**
Issued pursuant to the stock options plan	60,000	(60,000)	**-**	22,600	-	-	-	**22,600**
Stock-based compensation costs	-	-	**-**	-	80,130	-	-	**80,130**
Net loss	-	-	**-**	-	-	-	(685,025)	**(685,025)**
Balance as at November 30, 2013	47,925,983	3,785,000	**51,710,983**	15,245,339	1,334,955	2,190,382	(15,959,793)	**2,810,883**

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

Opsens Inc.

Condensed Interim Consolidated Statements of Changes in Equity
Three-month period ended November 30, 2012
(unaudited)

	Common shares	Stock options	**Total**	Common shares	Reserve - Stock option plan	Reserve - Warrants	Deficit	**Total**
	(number)	(number)	**(number)**	$	$	$	$	**$**
Balance as at August 31, 2012	47,865,983	3,419,000	**51,284,983**	15,201,618	1,150,424	2,190,382	(12,908,943)	**5,633,481**
Options granted	-	80,000	**80,000**	-	-	-	-	**-**
Options forfeited	-	(500,000)	**(500,000)**	-	-	-	-	**-**
Stock-based compensation costs	-	-	**-**	-	30,731	-	-	**30,731**
Net earnings	-	-	**-**	-	-	-	21,229	**21,229**
Balance as at November 30, 2012	47,865,983	2,999,000	**50,864,983**	15,201,618	1,181,155	2,190,382	(12,887,714)	**5,685,441**

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

Opsens Inc.

Condensed Consolidated Statements of Financial Position

(unaudited)

	As at November 30, 2013	As at August 31, 2013
	$	$
Assets		
Current		
Cash and cash equivalents (Note 7)	**2,817,828**	3,662,259
Trade and other receivables	**1,808,435**	959,857
Income tax credits receivable	**318,397**	565,086
Work in progress	**8,150**	55,491
Inventories	**3,071,689**	3,028,306
Prepaid expenses	**149,390**	187,672
	8,173,889	8,458,671
Property, plant and equipment	**965,410**	998,461
Intangible assets	**402,592**	394,421
Goodwill	**676,574**	676,574
	10,218,465	10,528,127
Liabilities		
Current		
Accounts payable and accrued liabilities	**1,942,669**	2,042,063
Warranty provision	**136,283**	144,783
Deferred revenues	**155,819**	51,188
Current portion of long-term debt	**175,576**	177,285
	2,410,347	2,415,319
Deferred revenues (Note 3)	**2,002,000**	2,002,000
Long-term debt	**756,496**	587,819
Convertible debenture (Note 4)	**2,238,739**	2,129,811
	7,407,582	7,134,949
Shareholders' equity		
Share capital	**15,245,339**	15,201,618
Reserve – Stock option plan	**1,334,955**	1,275,946
Reserve – Warrants	**2,190,382**	2,190,382
Deficit	**(15,959,793)**	(15,274,768)
	2,810,883	3,393,178
	10,218,465	10,528,127

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

Approved by the Board

Signed [Jean Lavigueur] director

Signed [Louis Laflamme] director

Opsens Inc.

Condensed Interim Consolidated Statements of Cash Flows

(unaudited)

	Three-month periods ended November 30, 2013	2012
	$	$
Operating activities		
Net earnings (loss) for the period	**(685,025)**	21,229
Adjustments for:		
Depreciation of property, plant and equipment	**79,193**	60,315
Amortization of intangible assets	**10,778**	7,324
Stock-based compensation costs	**80,130**	30,731
Change in fair value of embedded derivative	**78,342**	-
Interest expense	**11,168**	7,695
Effect of foreign exchange rate changes on cash and cash equivalents held in foreign currency	**6,562**	(3,441)
Unrealized foreign exchange loss	**17,048**	-
Government grants	**(110,808)**	-
Changes in non-cash operating working capital items (Note 7)	**(562,912)**	995,659
	(1,075,524)	1,119,512
Investing activities		
Acquisition of property, plant and equipment	**(46,142)**	(130,173)
Additions to intangible assets	**(18,949)**	(10,584)
Interest received	**10,763**	-
	(54,328)	(140,757)
Financing activities		
Proceeds from issuance of the convertible debenture	**-**	2,002,000
Increase in long-term debt	**314,213**	129,749
Reimbursement of long-term debt	**(44,830)**	(53,601)
Interest paid	**-**	(7,695)
Issuance of shares	**22,600**	-
	291,983	2,070,453
Effect of foreign exchange rate changes on cash and cash equivalents	**(6,562)**	3,441
Increase (decrease) in cash and cash equivalents	**(844,431)**	3,052,649
Cash and cash equivalents - Beginning of period	**3,662,259**	2,576,586
Cash and cash equivalents - End of period	**2,817,828**	5,629,235

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

Additional information is presented in note 7.

1. Incorporation and Description of Business

Opsens Inc. (“Opsens” or the “Company”) is incorporated under the *Business Corporations 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 laboratory activities. Opsens develops, manufactures, supplies and installs systems for measuring pressure and temperature as well as other parameters. 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, Québec, Québec, Canada, G1N 4N6.

2. Basis of Preparation and Upcoming Revised Standards

Statement of Compliance

These condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as set out in the Canadian Institute of Chartered Accountants (“CICA”) Handbook applicable to the preparation of interim financial statements, including International Accounting Standards (“IAS”) 34, *Interim Financial Reporting* and using the same accounting policies and methods of computation as our most recent annual financial statements, except for the changes in accounting policies described below. These condensed interim consolidated financial statements should be read in conjunction with the annual financial statements for the year ended August 31, 2013, which have been prepared in accordance with IFRS as issued by the International Accounting Standards Board.

Changes in Accounting Policies

The Company adopted the following accounting policies on September 1, 2013.

IFRS 7 (Revised), Financial Instruments: Disclosures

On December 16, 2011, the International Accounting Standards Board (“IASB”) and Financial Accounting Standards Board (“FASB”) issued common disclosure requirements that are intended to help investors and other users to better assess the effect or potential effect of offsetting arrangements on a company's financial position. The new requirements are set out in Disclosures-Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7). New required interim note disclosures have been included in these interim condensed consolidated financial statements. The IFRS 7 amendments are effective for financial years beginning on or after January 1, 2013.

IFRS 10, Consolidated Financial Statements

IFRS 10, *Consolidated Financial Statements*, builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. This standard replaces the Standing Interpretations Committee (“SIC”) 12, *Consolidation – Special Purpose Entities* and parts of IAS 27, *Consolidated and Separate Financial Statements*.

The Company has concluded that the adoption of IFRS 10 did not result in any changes.

2. Basis of Preparation and Upcoming Revised Standards (continued)

Changes in Accounting Policies (continued)

IFRS 11, Joint Arrangements

IFRS 11, *Joint Arrangements*, supersedes IAS 31, *Interests in Joint Ventures*, and requires joint arrangements to be classified either as joint operations or joint ventures, depending on the contractual rights and obligations of each investor that jointly control the arrangement. For joint operations, a company recognizes its share of assets, liabilities, revenues and expenses of the joint operation. An investment in a joint venture is accounted for using the equity method as set out in IAS 28, *Investments in Associates and Joint Ventures* (amended in 2011). The other amendments to IAS 28 did not affect the Company.

The Company has concluded that the adoption of IFRS 11 and IAS 28 (amended in 2011) did not result in any changes.

IFRS 12, Disclosure of Interest in Other Entities

IFRS 12, *Disclosure of Interests in Other Entities*, is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles.

The Company assessed its disclosure of interest in other entities and determined that the adoption of IFRS 12 did not result in additional disclosures.

IFRS 13, Fair Value Measurement

IFRS 13, *Fair Value Measurement*, provides a single framework for measuring fair value. The measurement of the fair value of an asset or liability is based on assumptions that market participants would use when pricing the asset and liability under current market conditions, including assumptions about risk.

The adoption of this standard did not require any adjustments to the valuation techniques used by the Company to measure fair value and did not result in any measurement adjustments as at September 1, 2013.

IAS 34, Interim Financial Reporting

The Company has adopted the amendments to IAS 34, *Interim Financial Reporting,* effective September 1, 2013. These amendments required the Company to make the disclosures about the fair value of financial instruments required by IFRS 7, *Financial Instruments: Disclosures*, and IFRS 13, *Fair Value Measurement,* in its interim financial statements. The disclosures required by the adoption of IFRS 13 have been reflected in Note 6 of the condensed interim consolidated financial statements.

3. 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 debentures, at signing, as described in Note 4 of these condensed interim consolidated financial statements.

3. 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 does not have regulatory approval, 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 condensed consolidated statement of financial position.

4. Convertible Debenture

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.

To secure the repayment of the convertible debenture, a movable hypothec on certain equipment has been given. As at November 30, 2013, the net book value of property, plant and equipment pledged as collateral was $58,000 ($66,000 as at August 31, 2013). 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 debentures when translated into 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.

4. Convertible Debenture (continued)

The carrying value of the convertible debenture and embedded derivative as of November 30, 2013 and August 31, 2013 is as follows:

	As of November 30, 2013	As of August 31, 2013
	$	$
Debt component reported as long-term liability	**2,124,468**	2,095,799
Embedded derivative reported as long-term liability	**114,271**	34,012
Total	**2,238,739**	2,129,811

5. Net Earnings (Loss) per Share

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

	Three-month periods ended November 30,	
	2013	2012
	$	$
Net earnings (loss) attributable to shareholders		
Basic and diluted	**(685,025)**	21,229
Number of shares		
Basic weighted average number of shares outstanding	**47,872,137**	47,865,983
Dilutive effect of stock options	**-**	99,522
Dilutive effect of the convertible debenture	**-**	527,473
Diluted weighted average number of shares outstanding	**47,872,137**	48,492,978
Amount per share		
Net earnings (loss) per share		
Basic	**(0.01)**	0.00
Diluted	**(0.01)**	0.00

5. Net Earnings (Loss) per Share (continued)

Stock options 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 is presented below:

	Three-month periods ended November 30, 2013	2012
Stock options	**200,000**	2,195,000

For the three-month period ended November 30, 2013, the diluted amount per share was the same amount as the basic amount per share, since the dilutive effect of 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 this period was calculated using the basic weighted average number of shares outstanding.

6. Fair Value of Financial Instruments

The following table provides information about financial instruments measured at fair value in the statement of financial position and categorized by level according to the significance of the inputs used in making the measurements:

		As of November 30, 2013	As of August 31, 2013
	Input level*	**Fair Value and Carrying Value**	**Fair Value and Carrying Value**
		$	**$**
Financial assets (liabilities) measured at fair value:			
Convertible debenture – embedded derivative	**2**	**(114,271)**	(34,012)

* 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.

The fair value of the embedded derivative financial instruments included in the convertible debenture is calculated using a financial model which includes observable data like share price and interest rates.

7. Statements of Cash Flows

	Three-month periods ended November 30, 2013	2012
	$	$
Changes in non-cash operating working capital items		
Trade and other receivables	**(848,578)**	(847,394)
Income tax credits receivable	**246,689**	(82,469)
Work in progress	**47,341**	-
Inventories	**(43,383)**	6,386
Prepaid expenses	**38,282**	8,096
Accounts payable and accrued liabilities	**(99,394)**	(100,960)
Warranty provision	**(8,500)**	10,000
Deferred revenues	**104,631**	2,002,000
	(562,912)	995,659

	As of November 30, 2013	As of August 31, 2013
	$	$
Cash and cash equivalents		
Cash	**186,321**	687,881
Short-term investments	**2,631,507**	2,974,378
	2,817,828	3,662,259

8. 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 installation of optical and conventional sensors for the oil and gas industry.

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.

	Three-month period ended November 30, 2013			Three-month period ended November 30, 2012		
	Opsens Inc.	**Opsens Solutions Inc.**	**Total**	Opsens Inc.	Opsens Solutions Inc.	Total
	$	**$**	**$**	$	$	$
External sales	**426,906**	**1,774,879**	**2,201,785**	664,243	1,868,506	2,532,749
Internal sales	**315,348**	**-**	**315,348**	196,792	-	196,792
Depreciation of property, plant and equipment	**45,931**	**33,262**	**79,193**	36,652	23,663	60,315
Amortization of intangible assets	**7,087**	**3,691**	**10,778**	5,922	1,402	7,324
Financial expenses (revenues)	**32,211**	**78,876**	**111,087**	(43,533)	65,206	21,673
Net earnings (loss)	**(806,988)**	**121,963**	**(685,025)**	(350,484)	371,713	21,229
Acquisition of property, plant and equipment	**41,026**	**5,116**	**46,142**	19,147	111,026	130,173
Additions to intangible assets	**16,678**	**2,271**	**18,949**	10,584	-	10,584
Segment assets	**5,892,199**	**4,326,266**	**10,218,465**	8,214,944	3,561,243	11,776,187
Segment liabilities	**6,692,036**	**715,546**	**7,407,582**	5,523,088	567,658	6,090,746

Geographic sector's information

	Three-month periods ended November 30,	
	2013	2012
	$	$
Revenue per geographic sector		
Canada	**1,790,212**	1,890,424
United States	**151,212**	241,520
Other*	**260,361**	400,805
	2,201,785	2,532,749

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

8. Segmented information (continued)

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 November 30, 2013, revenues from three clients represented individually more than 10% of the total revenues of the Company, i.e. approximately 37.7% (Opsens Solutions Inc.'s reportable segment), 21.2% (Opsens Solutions Inc.'s reportable segment) and 16.6% (Opsens Solutions Inc.'s reportable segment).

During the three-month period ended November 30, 2012, revenues from three clients represented individually more than 10% of the total revenues of the Company, i.e. approximately 29.5% (Opsens Solutions Inc.'s reportable segment), 28.1% (Opsens Solutions Inc.'s reportable segment) and 16.0% (Opsens Solutions Inc.'s reportable segment).

9. Approval of Condensed Interim Consolidated Financial Statements

The condensed interim consolidated financial statements were approved by the Board of Directors and authorized for issue on January 20, 2014.