

Consolidated Financial Statements

Opsens Inc.

Years ended August 31, 2016 and 2015

Opsens Inc.

Years ended August 31, 2016 and 2015

Table of contents

Independent Auditor's Report	1-2
Consolidated Statements of Loss and Comprehensive Loss.....	3
Consolidated Statements of Changes in Equity.....	4-5
Consolidated Statements of Financial Position.....	6
Consolidated Statements of Cash Flows	7
Notes to Consolidated Financial Statements	8-46



Deloitte LLP
925 Grande Allée West
Suite 400
Québec QC G1S 4Z4
Canada

Tel.: 418-624-3333
Fax. : 418-624-0414
www.deloitte.ca

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, 2016, and August 31, 2015, and the consolidated statements of loss and comprehensive loss, consolidated statements of changes in equity and consolidated statements of 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 as issued by the International Accounting Standards Board, 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 audit 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, 2016, and August 31, 2015, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

/s/ Deloitte LLP ¹

November 15, 2016

¹ CPA auditor, CA, public accountancy permit No. A112991

Opsens Inc.

Consolidated Statements of Loss and Comprehensive Loss Years ended August 31, 2016 and 2015

	2016	2015
	\$	\$
Revenues		
Sales	9,233,401	4,840,821
Distribution rights (note 12a)	-	3,457,500
Licensing (note 12b)	367,416	366,409
	9,600,817	8,664,730
Cost of sales	7,970,239	3,920,547
Gross margin	1,630,578	4,744,183
Expenses (revenues) (note 25)		
Administrative	3,684,431	2,615,830
Sales and marketing	3,694,310	1,500,911
Research and development	2,744,217	2,302,365
Financial expenses (revenues) (note 26)	56,864	(566)
Change in fair value of embedded derivative (note 14)	732,425	73,271
Impairment of assets (note 9)	-	796,237
	10,912,247	7,288,048
Loss before income taxes	(9,281,669)	(2,543,865)
Current income tax expense (note 12a)	-	340,000
Net loss and comprehensive loss attributable to shareholders	(9,281,669)	(2,883,865)
Basic and diluted net loss per share (note 16)	(0.14)	(0.05)

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

Opsens Inc.

Consolidated Statements of Changes in Equity

Years ended August 31, 2016 and 2015

	Common shares		Warrants	Total	Share capital	Reserve –	Reserve –	Deficit	Total
	Issued	Subscribed				Stock option plan			
	(number)	(number)	(number)	(number)	\$	\$	\$	\$	\$
Balance as at									
August 31, 2015	60,497,253	140,000	3,450,426	64,087,679	23,226,679	1,608,161	2,315,944	(21,257,345)	5,893,439
Common shares and warrants issued in connection with a public offering (note 15a)	5,681,819	-	3,154,796	8,836,615	3,819,639	-	580,446	-	4,400,085
Common shares and warrants issued in connection with private placements (note 15a)	4,945,400	-	2,472,700	7,418,100	4,658,316	-	390,360	-	5,048,676
Issued pursuant to the stock option plan (note 15a)	714,250	(140,000)	-	574,250	358,334	(139,168)	-	-	219,166
Warrants expired (note 15c)	-	-	(2,670,110)	(2,670,110)	-	-	-	-	-
Warrants exercised (note 15a)	790,316	-	(790,316)	-	614,643	-	(33,013)	-	581,630
Stock-based compensation costs (note 15b)	-	-	-	-	-	451,096	-	-	451,096
Net loss	-	-	-	-	-	-	-	(9,281,669)	(9,281,669)
Balance as at									
August 31, 2016	72,629,038	-	5,617,496	78,246,534	32,677,611	1,920,089	3,253,737	(30,539,014)	7,312,423

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

Opsens Inc.

Consolidated Statements of Changes in Equity

Years ended August 31, 2016 and 2015

	Common shares		Warrants	Total	Share capital	Reserve –	Reserve –	Deficit	Total
	Issued	Subscribed				Stock option plan			
	(number)	(number)	(number)	(number)	\$	\$	\$	\$	\$
Balance as at									
August 31, 2014	59,758,003	-	3,475,426	63,233,429	22,839,799	1,426,056	2,316,854	(18,373,480)	8,209,229
Issued pursuant to the stock option plan (note 15a)	714,250	140,000	-	854,250	367,720	(134,768)	-	-	232,952
Warrants exercised (note 15a)	25,000	-	(25,000)	-	19,160	-	(910)	-	18,250
Stock-based compensation costs (note 15b)	-	-	-	-	-	316,873	-	-	316,873
Net loss	-	-	-	-	-	-	-	(2,883,865)	(2,883,865)
Balance as at									
August 31, 2015	60,497,253	140,000	3,450,426	64,087,679	23,226,679	1,608,161	2,315,944	(21,257,345)	5,893,439

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

Opsens Inc.

Consolidated Statements of Financial Position

	As at August 31, 2016	As at August 31, 2015
	\$	\$
Assets		
Current		
Cash and cash equivalents (note 17)	5,903,040	7,203,612
Trade and other receivables (note 5)	1,981,426	561,093
Tax credits receivable (note 22)	365,000	350,000
Inventories (note 6)	4,056,824	2,837,770
Prepaid expenses	263,734	124,369
	12,570,024	11,076,844
Property, plant and equipment (note 7)	3,646,849	1,131,679
Intangible assets (note 8)	644,603	554,730
	16,861,476	12,763,253
Liabilities		
Current		
Accounts payable and accrued liabilities (note 11)	2,041,873	1,657,962
Warranty provision (note 19)	177,870	84,000
Current portion of deferred revenues (note 12)	366,408	609,937
Current portion of long-term debt (note 13)	481,248	232,309
	3,067,399	2,584,208
Deferred revenues (note 12)	408,085	774,499
Long-term debt (note 13)	1,303,406	462,779
Convertible debenture (note 14)	3,792,839	2,998,702
Deferred lease inducements	977,324	49,626
	9,549,053	6,869,814
Shareholders' equity		
Share capital (note 15a)	32,677,611	23,226,679
Reserve – Stock option plan (note 15b)	1,920,089	1,608,161
Reserve – Warrants (note 15c)	3,253,737	2,315,944
Deficit	(30,539,014)	(21,257,345)
	7,312,423	5,893,439
	16,861,476	12,763,253

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, 2016 and 2015

	2016	2015
	\$	\$
Operating activities		
Net loss	(9,281,669)	(2,883,865)
Adjustments for:		
Depreciation of property, plant and equipment	549,230	384,831
Amortization of intangible assets	72,767	62,100
Impairment of assets (note 9)	-	796,237
Loss (gain) on disposal of property, plant and equipment	2,199	(11,721)
Stock-based compensation costs	451,096	316,873
Change in fair value of embedded derivative	732,425	73,271
Interest expense (revenue)	32,095	(1,790)
Effect of foreign exchange rate changes on cash and cash equivalents	(31,730)	(530,598)
Unrealized foreign exchange loss (gain)	(8,159)	482,649
Government grants on long-term debt	(27,858)	-
Changes in non-cash operating working capital items (note 17)	(2,013,884)	(2,161,771)
	(9,523,488)	(3,473,784)
Investing activities		
Acquisition of property, plant and equipment	(3,088,204)	(584,985)
Additions to intangible assets	(126,723)	(136,700)
Proceeds from disposal of property, plant and equipment	-	43,000
Interest received	94,806	139,614
	(3,120,121)	(539,071)
Financing activities		
Increase in long-term debt, net of transaction costs	1,398,637	-
Reimbursement of long-term debt	(338,243)	(186,344)
Proceeds from issuance of shares and warrants (note 15a)	10,962,118	251,202
Shares and warrants issue costs (note 15a)	(711,205)	-
	11,311,307	64,858
Effect of foreign exchange rate changes on cash and cash equivalents	31,730	530,598
Decrease in cash and cash equivalents	(1,300,572)	(3,417,399)
Cash and cash equivalents – Beginning of year	7,203,612	10,621,011
Cash and cash equivalents – End of year	5,903,040	7,203,612

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

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

Opsens Inc.

Notes to Consolidated Financial Statements

Years ended August 31, 2016 and 2015

1. Incorporation and Description of Business

Opsens Inc. ("Opsens" or the "Company") is incorporated under the *Business Corporations Act* (Quebec). Opsens focuses mainly on the measure of Fractional Flow Reserve ("FFR") in interventional cardiology. Opsens offers an advanced optical-based pressure guidewire (OptoWire) that aims at improving the clinical outcome of patients with coronary artery disease. Opsens is also involved in industrial activities. The Company develops, manufactures and installs innovative fibre optic sensing solutions for critical applications such as the monitoring of oil wells and other demanding industrial applications. The Company's head office is located at 750, boulevard du Parc-Technologique, Québec, Québec, Canada, G1P 4S3.

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 consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"). The Company has consistently applied the accounting policies throughout all 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.

Basis 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. The Company controls an entity when it is exposed to, or has rights to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date control is obtained and they are no longer consolidated at the date 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.

Opsens Inc.

Notes to Consolidated Financial Statements

Years ended August 31, 2016 and 2015

2. Summary of Significant Accounting Policies (continued)

Revenue Recognition

The Company's revenue 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.

Industrial reportable segment revenues related to the sales 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 reporting 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 statements of financial position as deferred revenues. Expected losses are recorded as an expense when it is probable that total contract costs will exceed total contract revenue.

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 reporting 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 and comprehensive 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 years 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.

Opsens Inc.

Notes to Consolidated Financial Statements

Years ended August 31, 2016 and 2015

2. Summary of Significant Accounting Policies (continued)

Equity

Share capital represents the value of shares that have been issued. Any transaction costs associated with the issuance of shares are deducted from share capital.

From time to time, the Company issues units consisting of common shares and common share purchase warrants. The Company estimates the fair value of the common shares purchase warrants using the Black-Scholes option pricing model. The difference between the unit price and the fair value of each warrants represents the fair value attributable to each common share. Any transaction costs associated with the issuance of units are apportioned between the common shares and warrants based on their relative fair values.

Share-based Payments

The Company offers a stock option plan described in note 15, which is determined as an equity-settled plan.

The Company uses the fair value-based method to assess the fair value of stock options 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 and comprehensive loss as a compensation expense and credited to the stock option plan reserve, using a graded vesting schedule over the vesting period, based on the Company's estimate of the number of shares that will eventually vest. At the end of each reporting period, the Company revises its estimate of the number of equity instruments expected to vest. The impact of the revision of original estimates, if any, is recognized in the consolidated statements of loss and comprehensive loss such that the cumulative compensation expense reflects the revised estimate, with a corresponding adjustment 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.

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.

Opsens Inc.

Notes to Consolidated Financial Statements

Years ended August 31, 2016 and 2015

2. Summary of Significant Accounting Policies (continued)

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
Diagnostic and demonstration equipment	3 to 5 years
Research and development computer equipment	3 years
Computer equipment	3 years
Leasehold improvements	Remaining lease terms of nine years

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.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount and are recognized in the consolidated statements of loss and comprehensive loss.

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 - 20 years
Software	3 years

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

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.

Opsens Inc.

Notes to Consolidated Financial Statements

Years ended August 31, 2016 and 2015

2. Summary of Significant Accounting Policies (continued)

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 exists.

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 of disposal 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 charge is recognized in the consolidated statements of loss and comprehensive loss. Impairment charges recognized in prior periods are determined at each reporting date for any indications that the impairment charge has decreased or no longer exists. When an impairment charge 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 charges been recognized for the asset or CGU in prior years. An impairment charge 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 are charged to the consolidated statements of loss and comprehensive loss on a straight-line basis over the period of the lease.

The Company has a facility lease arrangement that includes tenant inducements. Rent expense is recorded evenly over the term of the lease agreement. The difference between cash rental payments and the rent expense recorded for accounting purposes is reflected as a deferred lease inducement in the consolidated statements of financial position.

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 and comprehensive 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, 2016 and 2015

2. Summary of Significant Accounting Policies (continued)

Warranty Provision

The Company offers a standard 12-month warranty excluding consumable and accessories.

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 and comprehensive 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 reporting 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, 2016 and 2015

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, the unrealized foreign exchange gain or loss, 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 liabilities 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 rate 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 is measured at fair value at each reporting date. The embedded derivative has been classified as held-for-trading and is included in the consolidated statements 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 and comprehensive loss.

Opsens Inc.

Notes to Consolidated Financial Statements Years ended August 31, 2016 and 2015

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 and comprehensive 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.

For all these items, relevant accounting policies are discussed in note 2 of these consolidated financial statements.

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.

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.

Opsens Inc.

Notes to Consolidated Financial Statements

Years ended August 31, 2016 and 2015

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

Useful Life of Depreciable Assets

Management reviews the useful life of depreciable assets at each reporting date. As at August 31, 2016, 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 the fair value less costs to sell calculations for the 2015 impairment test. These calculations require the use of estimates, assumptions and judgments. Information on goodwill is presented in note 9.

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.

Warrants

Warrants are issued as part of equity financing. Warrants may be exercised at any moment after their issuance until the expiration date. The Company uses judgment in assessing parameters like volatility and risk-free interest rate.

Opsens Inc.

Notes to Consolidated Financial Statements

Years ended August 31, 2016 and 2015

4. Changes in Accounting Policies

New and amended standards issued but not yet effective

IFRS 9, Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9, *Financial Instruments*. The new standard will replace IAS 39, *Financial instruments: recognition and measurement*. The final amendments made in the new version include guidance for the classification and measurement of financial assets and a third measurement category for financial assets, fair value through other comprehensive income. The standard also contains a new expected loss impairment model for debt instruments measured at amortized cost or fair value through other comprehensive income, lease receivables, contract assets and certain written loan commitments and financial guarantee contracts. The standard is effective for annual periods beginning on or after January 1, 2018 and must be applied retrospectively with some exceptions. Early adoption is permitted. Restatement of prior periods in relation to the classification and measurement, including impairment, is not required. The Company has not yet assessed the impact of this new standard.

IFRS 15, Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15, *Revenue from contracts with customers*. IFRS 15 replaces all previous revenue recognition standards, including IAS 18, *Revenue*, and related interpretations such as IFRIC 13, *Customer loyalty programmes*. The standard sets out the requirements for recognizing revenue. Specifically, the new standard introduces a comprehensive framework with the general principle being that an entity recognizes revenue to depict the transfer of promised goods and services in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard introduces more prescriptive guidance than was included in previous standards and may result in changes in classification and disclosure in addition to changes in the timing of recognition for certain types of revenues. On July 22, 2015, the IASB has confirmed a one-year deferral of the effective date of IFRS 15 to January 1, 2018.

In April 2016, the IASB issued clarifications to IFRS 15, *Revenue from contracts with customers*. These clarifications provide additional clarity on revenue recognition related to identifying performance obligations, application guidance on principal versus agent and licenses of intellectual property. The Company has not yet assessed the impact of this new standard.

IFRS 16, Lease

On January 13, 2016, the IASB released IFRS 16, *Leases*, which replace IAS 17, *Leases*, and the related interpretations on leases such as IFRIC 4, *Determining whether an arrangement contains a lease*, SIC 15, *Operating leases – Incentives* and SIC 27, *Evaluating the substance of transactions in the legal form of a lease*. This new standard specifies how to recognize, measure, present and disclose leases. It also provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless lease term is 12 months or less or the underlying asset has a small value. Accounting for the lessor remain substantially unchanged. The standard is effective for periods beginning on or after January 1, 2019, with earlier application permitted for companies that also apply IFRS 15, *Revenue from Contracts with Customers*. The Company has not yet assessed the impact of this new standard.

IAS 7, Statement of cash flows

On January 29, 2016, the IASB published amendments to IAS 7, *Statements of cash flows*. The amendments are intended to clarify IAS 7 to improve information provided to users of financial statements about an entity's financing activities. They are effective for annual periods beginning on or after January 1, 2017, with earlier application being permitted. The Company has not yet assessed the impact of this new standard.

Opsens Inc.

Notes to Consolidated Financial Statements Years ended August 31, 2016 and 2015

5. Trade and other receivables

	As at August 31, 2016	As at August 31, 2015
	\$	\$
Trade	2,176,251	469,038
Allowance for doubtful accounts	(491,623)	(3,032)
Sales taxes receivable	217,817	95,087
Other receivables	78,981	-
Total	1,981,426	561,093

Allowance for doubtful accounts variation

	Years ended August 31,	
	2016	2015
	\$	\$
Balance – Beginning of year	(3,032)	(3,032)
Amounts written off during the year	1,759	-
Additional provisions recognized	(490,350)	-
Balance – End of year	(491,623)	(3,032)

6. Inventories

	As at August 31, 2016	As at August 31, 2015
	\$	\$
Raw materials	2,205,139	1,674,001
Work in progress	1,240,091	168,281
Finished goods	611,594	995,488
Total	4,056,824	2,837,770

For the year ended August 31, 2016, \$4,556,764 of inventories were expensed in the consolidated statements of loss and comprehensive loss and presented in cost of sales (\$2,039,668 for the year ended August 31, 2015).

Write-downs of inventories amounting to \$809,000 (\$347,000 in 2015) were included under cost of sales.

Opsens Inc.

Notes to Consolidated Financial Statements

Years ended August 31, 2016 and 2015

7. Property, Plant and Equipment

	Office furniture and equipment	Leased office furniture and equipment	Production equipment	Diagnostic and demonstration 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 as at August 31, 2015	189,479	8,326	1,199,224	-	14,300	1,082,189	50,425	275,865	378,152	3,197,960
Additions	173,503	-	1,797,856	229,956	-	18,893	11,938	141,026	693,427	3,066,599
Disposals	-	-	-	(2,473)	-	-	-	-	-	(2,473)
Balance as at August 31, 2016	362,982	8,326	2,997,080	227,483	14,300	1,101,082	62,363	416,891	1,071,579	6,262,086
Accumulated depreciation										
Balance as at August 31, 2015	91,331	8,326	458,823	-	14,300	928,041	42,067	223,454	299,939	2,066,281
Disposals	-	-	-	(274)	-	-	-	-	-	(274)
Depreciation	24,920	-	296,690	20,328	-	56,468	6,946	52,200	91,678	549,230
Balance as at August 31, 2016	116,251	8,326	755,513	20,054	14,300	984,509	49,013	275,654	391,617	2,615,237
Net book value										
as at August 31, 2016	246,731	-	2,241,567	207,429	-	116,573	13,350	141,237	679,962	3,646,849

Opsens Inc.

Notes to consolidated Financial Statements

Years ended August 31, 2016 and August 31, 2015

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 \$55,303	Research and development computer equipment, net of income tax credits of \$3,078	Computer equipment	Leasehold improvements	Total
	\$	\$	\$	\$	\$	\$	\$	\$	\$
Cost									
Balance as at August 31, 2014	152,047	8,326	997,940	59,028	1,025,830	43,657	224,776	346,678	2,858,282
Additions	37,432	-	441,517	-	56,359	6,768	51,089	31,474	624,639
Disposals	-	-	(55,542)	(44,728)	-	-	-	-	(100,270)
Impairment (note 9)	-	-	(184,691)	-	-	-	-	-	(184,691)
Balance as at August 31, 2015	189,479	8,326	1,199,224	14,300	1,082,189	50,425	275,865	378,152	3,197,960
Accumulated depreciation									
Balance as at August 31, 2014	75,737	8,326	412,495	58,001	836,962	35,930	203,262	184,756	1,815,469
Disposals	-	-	(24,263)	(44,728)	-	-	-	-	(68,991)
Depreciation	15,594	-	135,619	1,027	91,079	6,137	20,192	115,183	384,831
Impairment (note 9)	-	-	(65,028)	-	-	-	-	-	(65,028)
Balance as at August 31, 2015	91,331	8,326	458,823	14,300	928,041	42,067	223,454	299,939	2,066,281
Net book value									
as at August 31, 2015	98,148	-	740,401	-	154,148	8,358	52,411	78,213	1,131,679

Opsens Inc.

Notes to Consolidated Financial Statements

Years ended August 31, 2016 and 2015

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, 2015	13,567	30,000	108,172	708,015	859,754
Additions	5,153	5,060	73,153	79,274	162,640
Balance as at August 31, 2016	18,720	35,060	181,325	787,289	1,022,394
Accumulated amortization					
Balance as at August 31, 2015	-	5,025	81,442	218,557	305,024
Amortization	-	2,193	24,047	46,527	72,767
Balance as at August 31, 2016	-	7,218	105,489	265,084	377,791
Net book value					
as at August 31, 2016	18,720	27,842	75,836	522,205	644,603

	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, 2014	200	30,000	85,723	583,412	699,335
Additions	13,367	-	22,449	124,603	160,419
Balance as at August 31, 2015	13,567	30,000	108,172	708,015	859,754
Accumulated amortization					
Balance as at August 31, 2014	-	3,174	65,853	173,897	242,924
Amortization	-	1,851	15,589	44,660	62,100
Balance as at August 31, 2015	-	5,025	81,442	218,557	305,024
Net book value					
as at August 31, 2015	13,567	24,975	26,730	489,458	554,730

Opsens Inc.

Notes to Consolidated Financial Statements

Years ended August 31, 2016 and 2015

9. Goodwill

During the three-month period ended November 30, 2014, the Company performed its annual test for goodwill, 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 determined based on the fair value less costs to sell method.

2015 Impairment Test

The fair value less costs to sell method is based on the best information available to reflect the amount that could be obtained from the disposal of the CGU in an arm's length transaction between knowledgeable parties, net of estimates of the costs of disposal.

During the three-month period ended November 30, 2014, the Company updated its long-term financial forecast for Opsens Solutions Inc.'s CGU which corresponds to a reportable segment of the Company. As a result of lower than anticipated long-term revenue projections due to economic factors, including the significant decrease of the crude oil prices, the Company concluded its goodwill and some long-term assets may be impaired and as a result performed an impairment analysis. The recoverable amount of the goodwill as at November 30, 2014 was determined using the fair value less costs to sell method. In applying this method to its goodwill impairment test, the Company used replacement costs, market data and comparable transactions to determine the recoverable value of Opsens Solutions Inc.'s CGU.

As a result of the impairment analysis performed as at November 30, 2014, the Company concluded the carrying value of the Opsens Solutions Inc.'s CGU was in excess of its recoverable amount. The recoverable amount of Opsens Solutions Inc.'s CGU amounted to \$1,611,000 and was classified at level 3 in the fair value hierarchy. The Company has recorded an impairment charge relating to its goodwill of \$676,574 for the year ended August 31, 2015.

In addition, an impairment charge of \$119,663 was also recorded during the year ended August 31, 2015 for automotive equipment resulting from the challenging economic environment Opsens Solutions Inc.'s CGU is facing.

There were no tax impacts as a result of the impairment charges.

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, 2016 and 2015.

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 8.5%.

Opsens Inc.

Notes to Consolidated Financial Statements Years ended August 31, 2016 and 2015

11. Accounts payable and accrued liabilities

	As at August 31, 2016	As at August 31, 2015
	\$	\$
Suppliers	875,027	666,278
Salaries, employee benefits and others	423,716	427,499
Other liabilities	743,130	564,185
Total	2,041,873	1,657,962

12. Deferred Revenues

a) *Distribution and Other Rights Agreement*

On November 19, 2012, the Company announced the granting of distribution and other rights for OptoWire and OptoMonitor, Opsens' products for measuring 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.

Under the terms of the agreement, 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.

On October 2, 2014, the Company announced it had received Shonin approval from the Japanese Ministry of Health, Labor and Welfare to market the OptoWire and the OptoMonitor. Obtaining Shonin approval was the final condition for the release of a milestone payment of \$1,115,500 (US\$1,000,000), net of income taxes. This amount has been recorded in the consolidated statements of loss and comprehensive loss under the caption "Distribution rights".

On November 19, 2014, the Company announced it has received CE Mark approval to market in Europe its FFR products. The CE mark approval allows the Company to record in the consolidated statements of loss and comprehensive loss under the caption "Distribution rights" the \$2,002,000 (US\$2,000,000) upfront license fee, net of income taxes, it received upon the signature of the agreement that were previously accounted for as deferred revenues.

Opsens Inc.

Notes to Consolidated Financial Statements

Years ended August 31, 2016 and 2015

12. Deferred Revenues (continued)

a) *Distribution and Other Rights Agreement (continued)*

During the year ended August 31, 2015, an adjustment on revenues and income tax expense of \$340,000 (US\$300,000) was made to recognize additional revenues from the distribution agreement and withholding taxes paid by the Company.

b) *Licensing Agreement*

On April 15, 2014, the Company announced it had entered into an agreement with Abiomed, Inc. ("Abiomed") in connection with its miniature optical pressure sensor technology for applications in circulatory assist devices. The Company has granted Abiomed an exclusive worldwide license to integrate its miniature pressure sensor in connection with Abiomed's circulatory assist devices. Under the agreement, Abiomed will pay Opsens an aggregate amount of US\$6,000,000. \$1,647,000 (US\$1,500,000) has been paid on closing, while the balance will be disbursed based on the achievement of certain milestones.

The Company applies the principles of IAS 18, *Revenue*, to record revenues arising from the agreement with Abiomed. Therefore, the amount of \$1,647,000 (US\$1,500,000) paid on closing is recognized over the term of the agreement. Revenues from milestone payments will be limited to costs incurred as long as the milestones are not achieved. Upon the achievement of a milestone, the unrecognized portion of the milestone will be recorded as revenues. During the year ended August 31, 2016, an amount of \$367,416 (\$366,409 for the year ended August 31, 2015) related to the Abiomed agreement has been recognized as licensing revenues in the consolidated statements of loss and comprehensive loss.

c) *Other Deferred Revenues*

Deferred revenues also comprise contracts where billings exceed contract costs incurred to date plus recognized profits less recognized losses or when the Company receives payments in advance of meeting the revenue recognition criteria.

Opsens Inc.

Notes to Consolidated Financial Statements

Years ended August 31, 2016 and 2015

13. Long-term Debt

	As of August 31, 2016	As of August 31, 2015
	\$	\$
Contributions repayable to Ministère des Finances et de l'Économie (MFE), without interest (effective rate of 9%), repayable in five equal and consecutive annual instalments of \$82,718, maturing in February 2020.		
Debt balance	330,872	413,590
Imputed interest	(52,841)	(80,364)
	278,031	333,226
Term loans, bearing interest at rates varying from 5.69% to 6.79%, payable in monthly instalments of \$3,161, including interest, maturing from October to December 2017.		
	45,492	79,291
Contributions repayable to Canada Economic Development, without interest (effective rate of 13.5%), repayable in twenty equal and consecutive quarterly instalments of \$15,000, maturing in August 2020.		
Debt balance	240,000	300,000
Imputed interest	(54,664)	(81,239)
	185,336	218,761
Contributions repayable to Canada Economic Development, without interest (effective rate of 12%), repayable in 59 equal and consecutive monthly instalments of \$1,086 and a final payment of \$1,063, maturing in October 2023. The difference between amounts received and estimated fair value is recognized as government grants.		
Debt balance	65,137	-
Imputed interest	(26,054)	-
	39,083	-
Secured loan from Export Development Canada, bearing interest at prime rate plus 2.0%, secured by a movable hypothec on the universality of the Company's present and future property, plant and equipment and intangible assets, payable in 48 monthly instalments of \$10,417, maturing in April 2017. Amounts received are net of transaction costs of \$2,500.		
	456,241	-
Term loan, bearing interest at prime rate plus 0.25%, secured by a movable hypothec on the universality of the Company's present and future property, plant and equipment and intangible assets, payable in forty-eight monthly instalments of \$18,750, maturing in May 2020. Amounts received are net of transaction costs of \$9,000.		
	780,471	-
Reimbursed during the year	-	63,810
	1,784,654	695,088
Current portion	481,248	232,309
	1,303,406	462,779

Opsens Inc.

Notes to Consolidated Financial Statements

Years ended August 31, 2016 and 2015

13. Long-term Debt (continued)

The annual principal instalments due on the long-term debt are \$481,248 in 2017, \$466,493 in 2018, \$465,749 in 2019, \$336,335 in 2020 and \$9,679 in 2021.

Under the terms and conditions of the agreements on long-term debt with its lenders, the Company is subject to certain covenants with respect to maintaining minimum financial ratios. As at August 31, 2016 and 2015, these financial ratios were met by the Company.

14. Convertible Debenture

	As at August 31, 2016	As at August 31, 2015
	\$	\$
Debt component reported as long-term liability (US\$2,144,864; US\$2,092,368 as at August 31, 2015)	2,813,204	2,752,929
Embedded derivative reported as long-term liability (US\$746,900; US\$186,800 as at August 31, 2015)	979,635	245,773
Total	3,792,839	2,998,702

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 August 31, 2016, the net book value of property, plant and equipment pledged as collateral was nil (\$2,000 as at August 31, 2015). This hypothec ranks second to certain long-term debts 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.

Opsens Inc.

Notes to Consolidated Financial Statements Years ended August 31, 2016 and 2015

14. Convertible Debenture (continued)

Expenses associated with the debenture consist of:

	Years ended August 31,	
	2016	2015
	\$	\$
Interest expense	56,659	71,465
Accretion interest	12,970	11,760
Change in fair value of embedded derivative	732,425	73,271
Total	802,054	156,496

As at August 31, 2016, the debt component of the convertible debenture has a fair value of \$1,905,700 (\$1,693,400 as at August 31, 2015).

15. Share Capital, Stock Options and Warrants

a) Share capital

The Company has authorized an unlimited number of common shares (being voting and participating shares) with no par value.

On May 16, 2016, the Company completed a non-brokered private placement offering for aggregate gross proceeds of \$4,999,050. In connection with the offering, the Company issued a total of 4,761,000 units at a price of \$1.05 per unit. Each unit consists of one common share in the capital stock of Opsens and one-half of one common share purchase warrant, with each whole common share purchase warrant entitling the holder thereof to purchase one common share at a price of \$1.55 until November 16, 2017. The value of one-half of one common share purchase warrant was established at \$0.08.

Expenses of the offering include professional fees and miscellaneous fees for total fees of \$102,563. The fees have been allocated on a prorata basis between share capital and the warrants reserve, \$94,749 and \$7,814 respectively, based on the ratio established by their respective values as discussed above.

On December 22, 2015, the Company completed a public offering for aggregate gross proceeds of \$5,000,000. In connection with the offering, the Company issued a total of 5,681,819 units at a price of \$0.88 per unit. Each unit consists of one common share in the capital stock of Opsens and one-half of one common share purchase warrant, with each whole common share purchase warrant entitling the holder thereof to purchase one common share at a price of \$1.20 until June 22, 2017. The value of one-half of one common share purchase warrant was established at \$0.10.

Expenses of the offering include underwriting fees of \$276,202 and other professional fees and miscellaneous fees of \$323,713 for total fees of \$599,915 of which \$598,559 have been paid and \$1,356 are included in accounts payable and accrued liabilities.

Opsens Inc.

Notes to Consolidated Financial Statements

Years ended August 31, 2016 and 2015

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

a) *Share capital (continued)*

The Company also issued 313,886 broker warrants as additional compensation, each warrant entitling the holder to purchase one common share of the Corporation at a price of \$0.88 until June 22, 2017. The value of one broker warrant was established at \$0.29.

The total fees of \$599,915 and the broker warrants value of \$91,027 have been allocated on a prorata basis between share capital and the warrants reserve, \$612,179 and \$78,763 respectively, based on the ratio established by their respective values as described above.

Concurrently with the public offering, the Company completed a non-brokered private placement offering of 184,400 units at a price of \$0.88 per unit for aggregate gross proceeds of \$162,272. Each unit comprises the same terms and conditions than the units issued under the public offering. Expenses related to the private placement amounted to \$10,083. The fees have been allocated on a prorata basis between share capital and the warrants reserve, \$8,937 and \$1,146 respectively, based on the ratio established by their respective values as discussed above.

During the year ended August 31, 2016, following the exercise of stock options, the Company issued 574,250 common shares (714,250 common shares and 140,000 common shares were subscribed but not issued for the year ended August 31, 2015) for a cash consideration of \$219,166 (\$232,952 for the year ended August 31, 2015). As a result, an amount of \$139,168 was reallocated from "Reserve – Stock option plan" to "Share capital" in shareholders' equity (\$134,768 for the year ended August 31, 2015).

During the year ended August 31, 2016, following the exercise of warrants, the Company issued 790,316 common shares (25,000 common shares for the year ended August 31, 2015) for a cash consideration of \$581,630 (\$18,250 for the year ended August 31, 2015). As a result, an amount of \$33,013 was reallocated from "Reserve – Warrants" to "Share capital" in shareholders' equity (\$910 for the year ended August 31, 2015).

b) *Stock options*

The Shareholders approved the stock option plan on January 18, 2016 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 600,000 outstanding stock options granted (700,000 stock options granted as at August 31, 2015), 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 Exchange 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, 2016 is \$451,096 (\$316,873 for the year ended August 31, 2015).

Opsens Inc.

Notes to Consolidated Financial Statements Years ended August 31, 2016 and 2015

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

b) Stock options (continued)

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

	Years ended August 31,	
	2016	2015
Risk-free interest rate	Between 0.32% and 0.80%	Between 0.63% and 1.55%
Volatility	Between 62% and 112%	Between 88% and 124%
Dividend yield on shares	Nil	Nil
Expected life	5 years	5 years
Weighted share price	\$0.95	\$0.80
Weighted fair value per option at the grant date	\$0.55	\$0.52

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 life of the options.

The situation of the outstanding stock option plan and the changes that took place between August 31, 2014 and August 31, 2016 are as follows:

	Number of options	Weighted-average exercise price
		\$
Outstanding as at August 31, 2014	4,172,500	0.36
Options granted	862,000	0.81
Options exercised*	(854,250)	0.27
Options forfeited	(17,500)	0.81
Options cancelled	(620,000)	0.29
Outstanding as at August 31, 2015	3,542,750	0.50
Options granted	2,154,750	0.95
Options exercised	(574,250)	0.38
Options forfeited	-	-
Options cancelled	(93,750)	0.79
Outstanding as at August 31, 2016	5,029,500	0.70
Options exercisable as at August 31, 2016	1,913,125	0.43

* 140,000 common shares arising from the exercise of stock options were issued after August 31, 2015.

Opsens Inc.

Notes to Consolidated Financial Statements Years ended August 31, 2016 and 2015

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

b) Stock options (continued)

The table below provides information on the outstanding stock options as at August 31, 2016:

Exercise price	Number of outstanding stock options	Number of exercisable stock options	Weighted-average remaining contractual life (years)
\$			
0.20	160,750	160,750	0.55
0.21	250,000	187,500	1.35
0.23	282,500	282,500	0.21
0.24	40,000	40,000	1.24
0.25	608,500	456,375	1.39
0.44	100,000	100,000	2.13
0.66	200,000	100,000	2.92
0.68	200,000	50,000	3.06
0.69	140,000	140,000	3.38
0.70	400,000	-	4.02
0.72	100,000	25,000	3.23
0.75	351,000	175,500	2.65
0.80	25,000	-	4.09
0.85	120,000	80,000	2.23
0.90	350,000	-	4.41
0.93	1 002,250	-	4.38
0.94	402,000	115,500	3.64
1.20	97,500	-	4.63
1.22	50,000	-	4.63
1.66	150,000	-	4.94
	5,029,500	1,913,125	3.04

c) Warrants

The situation of the outstanding warrants and the changes that took place between August 31, 2014 and August 31, 2016 are as follows:

	Number of warrants	Weighted-average exercise price
		\$
Outstanding as at August 31, 2014	3,475,426	0.98
Warrants exercised (note 15a)	(25,000)	0.73
Outstanding as at August 31, 2015	3,450,426	0.98
Issued with units (note 15a)	5,313,610	1.36
Issued to brokers (note 15a)	313,886	0.88
Warrants expired	(2,670,110)	1.05
Warrants exercised (note 15a)	(790,316)	0.74
Outstanding as at August 31, 2016	5,617,496	1.33
Warrants exercisable as at August 31, 2016	5,617,496	1.33

Opsens Inc.

Notes to Consolidated Financial Statements Years ended August 31, 2016 and 2015

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

c) Warrants (continued)

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

	<u>Year ended</u> <u>August 31, 2016</u>
Risk-free interest rate	Between 0.51% and 0.56%
Volatility	Between 58% and 69%
Dividend yield on shares	Nil
Expected life	1.5 years
Weighted share price	\$1.33
Weighted fair value per warrant at the grant date	\$0.19

In addition, option valuation models require the input of highly-subjective assumptions, including the expected stock price volatility. Any changes in the subjective 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 life of the warrants.

16. Net Loss per Share

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

	<u>Years ended August 31,</u>	
	<u>2016</u>	<u>2015</u>
	\$	\$
Net loss attributable to shareholders		
Basic and diluted	(9,281,669)	(2,883,865)
Number of shares		
Basic and diluted weighted-average number of shares outstanding	66,735,651	60,179,119
Amount per share		
Net loss per share		
Basic	(0.14)	(0.05)
Diluted	(0.14)	(0.05)

Opsens Inc.

Notes to Consolidated Financial Statements

Years ended August 31, 2016 and 2015

16. Net Loss per Share (continued)

Stock options, warrants and the convertible debenture 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 or when their effect is antidilutive. The number of such stock options, warrants and the nominal value of the convertible debenture is presented below:

	Years ended August 31,	
	2016	2015
Stock options	297,500	542,000
Warrants	5,303,610	2,670,110
Convertible debenture (US\$2,000,000)	\$2,002,000	\$2,002,000

For the years ended August 31, 2016 and 2015, the diluted amount per share was the same amount as the basic amount per share, since the dilutive effect of stock options, warrants 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.

Opsens Inc.

Notes to Consolidated Financial Statements

Years ended August 31, 2016 and 2015

17. Additional Information on the Consolidated Statements of Cash Flows

	Years ended August 31,	
	2016	2015
	\$	\$
<i>Changes in non-cash operating working capital items</i>		
Trade and other receivables	(1,420,333)	408,218
Tax credits receivable	(15,000)	33,500
Inventories	(1,219,054)	(391,886)
Prepaid expenses	(139,365)	68,747
Accounts payable and accrued liabilities	368,243	181,797
Warranty provision	93,870	(49,500)
Deferred revenues	(609,943)	(2,462,273)
Deferred lease inducement	927,698	49,626
	(2,013,884)	(2,161,771)
<i>Supplementary information</i>		
Unpaid acquisition of property, plant and equipment	18,049	39,654
Unpaid additions to intangible assets	59,636	23,719
	As at	As at
	August 31,	August 31,
	2016	2015
	\$	\$
<i>Cash and cash equivalents</i>		
Cash	454,740	449,658
Short-term investments	5,448,300	6,753,954
	5,903,040	7,203,612

Opsens Inc.

Notes to Consolidated Financial Statements Years ended August 31, 2016 and 2015

18. Commitments

Leases

The Company leases offices in Québec under operating leases expiring on April 30, 2018 and September 30, 2025. These agreements are renewable for an additional five-year period.

Future payments for the leases, totalling \$3,135,000, required in each of the forthcoming years are as follows:

	\$
2017	471,000
2018	416,000
2019	297,000
2020	303,000
2021	310,000
Thereafter	1,338,000

In 2016, the offices lease expense is \$909,969 (\$393,106 in 2015).

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, 2016, the Company recognized an expense of \$93,870 (reversal of \$49,500 recognized for the year ended August 31, 2015) for guarantees. A provision of \$177,870 is recorded for guarantees as at August 31, 2016 (\$84,000 as at August 31, 2015). The following table summarizes changes in warranty provision:

	<u>Years ended August 31,</u>	
	<u>2016</u>	<u>2015</u>
	\$	\$
Balance – Beginning of year	84,000	133,500
Provisions recognized (reversed)	93,870	(49,500)
Balance – End of year	177,870	84,000

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.

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 \$200,000, non-interest bearing, to cover expenses related to the commercialization of its FFR products. This contribution is paid out based on presentation by the Company of invoices related to specific expenses since May 22, 2015. During the year ended August 31, 2016, the Company received an amount of \$65,137 for which an amount of \$27,858 (nil for the year ended August 31, 2015) was recognized against administrative and sales and marketing.

Opsens Inc.

Notes to Consolidated Financial Statements

Years ended August 31, 2016 and 2015

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 consolidated financial statements is as follows:

	Years ended August 31,	
	2016	2015
	\$	\$
Income tax payable using the combined federal and provincial statutory tax rate (26.9%; 26.0% in 2015)	(2,498,200)	(660,646)
Non-deductible expenses and others	1,317,525	1,023,486
Deductible financing fees	(98,835)	(58,012)
Taxable income	(95,929)	(734,951)
Non-taxable income tax credits	(114,103)	(121,752)
Losses carried forward	1,489,542	551,875
Foreign income taxes	-	340,000
Income tax using effective income tax rate	-	340,000

As at August 31, 2016, the Company has tax losses of approximately \$17,512,400 for federal purposes and \$17,248,400 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	2,146,000
2032	1,285,000	1,280,000
2033	237,000	239,000
2034	1,091,000	1,125,000
2035	2,513,000	2,510,000
2036	5,534,000	5,530,000
	17,512,400	17,248,400

Opsens Inc.

Notes to Consolidated Financial Statements

Years ended August 31, 2016 and 2015

21. Income Taxes (continued)

The Company also has undeducted research and development expenses of \$8,205,000 (\$7,106,000 as at August 31, 2015) for federal purposes and \$10,920,000 (\$9,798,000 as at August 31, 2015) 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 \$10,974,000 (\$7,461,000 as at August 31, 2015) were not recognized due to the uncertainty concerning the Company's ability to generate taxable income. In addition, deferred tax liabilities of approximately \$672,000 (\$507,500 as at August 31, 2015) related to federal investment tax credits on property, plant and equipment were recognized and offset by a deferred income tax asset.

22. Tax Credits for Scientific Research and Experimental Development

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

	Years ended August 31,	
	2016	2015
	\$	\$
Federal	1,499,000	1,519,018
Provincial	1,539,000	1,519,018

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,	
	2016	2015
	\$	\$
Federal	-	-
Provincial	365,000	350,000

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

Reimbursable scientific research and experimental development income tax credits earned for the year ended August 31, 2016 and 2015 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, 2016 are about \$2,496,000 (\$2,217,000 as at August 31, 2015) and expire over a period of 8 to 20 years beginning in 2016.

Opsens Inc.

Notes to Consolidated Financial Statements

Years ended August 31, 2016 and 2015

23. Segmented Information

Sector's Information

In order to strengthen its medical identity to develop its full potential in the FFR market, the Company reorganized, on September 1, 2015, its corporate structure. Following the reorganization, the Company is now organized into two segments: Medical and Industrial.

Medical segment: In this segment, Opsens focuses mainly on the measure of FFR in interventional cardiology.

Industrial: In this segment, Opsens' develops, manufactures and installs innovative fiber optic sensing solutions for critical applications such as the monitoring of oil wells and other demanding industrial applications.

The principal factors employed in the identification of the two segments reflected in this note include the Company's organizational structure, the nature of the reporting lines to the President and Chief Executive Officer and the structure of internal reporting documentation such as management accounts and budgets.

In accordance with IFRS 8, *Operating Segments*, the Company has restated the corresponding information for the year ended August 31, 2015 to reflect the corporate reorganization with the exception of the information on segment assets and liabilities because the information was not available and the cost to develop it would have been excessive.

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,					
	2016			2015		
	Medical	Industrial	Total	Medical	Industrial	Total
	\$	\$	\$	\$	\$	\$
External sales	6,429,256	3,171,561	9,600,817	5,034,767	3,629,963	8,664,730
Internal sales	-	413,982	413,982	-	-	-
Depreciation of property, plant and equipment	443,355	105,875	549,230	214,780	170,051	384,831
Amortization of intangible assets	64,543	8,224	72,767	48,352	13,748	62,100
Financial expenses (revenues)	(167,106)	223,970	56,864	(163,257)	162,691	(566)
Current income tax expense	-	-	-	340,000	-	340,000
Net earnings (loss)	(7,247,523)	(2,031,912)	(9,279,435)	708,560	(2,796,188)	(2,087,628)
Acquisition of property, plant and equipment	2,934,675	131,924	3,066,599	553,062	71,577	624,639
Additions to intangible assets	108,264	54,376	162,640	137,036	23,383	160,419
Segment assets	14,281,597	2,579,879	16,861,476	N/A	N/A	N/A
Segment liabilities	8,973,258	575,795	9,549,053	N/A	N/A	N/A

Opsens Inc.

Notes to Consolidated Financial Statements

Years ended August 31, 2016 and 2015

23. Segmented Information (continued)

The Company's net loss per reportable segments reconciles to its consolidated financial statements as follows:

	Years ended August 31,	
	2016	2015
	\$	\$
Net loss per reportable segments	(9,279,435)	(2,087,628)
Elimination of inter-segment profits	(2,234)	-
Impairment charge on property, plant and equipment (note 9)	-	(119,663)
Impairment charge on goodwill (note 9)	-	(676,574)
Net loss and comprehensive loss	(9,281,669)	(2,883,865)

Geographic sector's information

	Years ended August 31,	
	2016	2015
	\$	\$
Revenue per geographic sector		
Japan	3,521,669	3,978,097
Canada	2,207,299	1,350,228
United States	1,506,971	870,179
Chile	6,396	1,169,182
Other*	2,358,482	1,297,044
	9,600,817	8,664,730

* 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.

During the year ended August 31, 2016, revenues from one client represented individually more than 10% of the total revenues of the Company, i.e. approximately 37% (medical's reportable segment).

During the year ended August 31, 2015, revenues from two clients represented individually more than 10% of the total revenues of the Company, i.e. approximately 40% (medical's reportable segment) and 13% (industrial's reportable segment).

Opsens Inc.

Notes to Consolidated Financial Statements

Years ended August 31, 2016 and 2015

24. Related-party Transactions

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

	Years ended August 31,	
	2016	2015
	\$	\$
Professional fees paid to a company controlled by a director	29,248	25,459

Fees are incurred for the Company's 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 Business Unit Manager of Opsens Solutions Inc. and other vice presidents. Compensation of key management personnel during the year was as follows:

	Years ended August 31,	
	2016	2015
	\$	\$
Short-term salaries and other benefits	1,317,208	966,200
Option-based awards	95,646	83,300
Termination benefits	-	57,500
	1,412,854	1,107,000

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

Opsens Inc.

Notes to Consolidated Financial Statements Years ended August 31, 2016 and 2015

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

Expenses (revenues) included in functions	Years ended August 31,	
	2016	2015
	\$	\$
Salaries & Other Benefits	7,604,580	4,856,965
Cost of sales		
Administrative		
Sales and marketing		
Research and development		
Depreciation of Property, Plant and Equipment	549,230	384,831
Cost of sales		
Administrative		
Sales and Marketing		
Research and development		
Amortization of Intangible Assets	72,767	62,100
Administrative		
Research and development		
Government Assistance	(113,054)	(25,920)
Cost of sales		
Administrative		
Sales and marketing		
Research and development		
Income tax credits for research and development	(424,173)	(447,610)
Research and development		

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.

Opsens Inc.

Notes to Consolidated Financial Statements

Years ended August 31, 2016 and 2015

26. Financial Instruments (continued)

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

As explained in note 14, the convertible debenture contains 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 this embedded derivative is the implied volatility. The fair value of the convertible debenture was determined using the Black-Scholes pricing model using an implied volatility of 55% (95% in 2015), a discount rate of 0.57% (0.44% in 2015) and an expected life of 1.2 years (2.2 years in 2015). A 1% change in the implied volatility factor would have changed the fair value of the embedded derivative by \$9,575 (\$1,840 for the year ended August 31, 2015).

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 as trade receivables consist of a large number of customers spread across diverse geographical areas. 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 at risks and/or uncollectible. Two major customers represented 50% of the Company's total accounts receivable as at August 31, 2016 (33% as at August 31, 2015).

As at August 31, 2016, 56% (4% as at August 31, 2015) of the accounts receivable were of more than 90 days whereas 30% (55% as at August 31, 2015) 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, 2016, the allowance for doubtful accounts was established at \$491,623 (\$3,032 as at August 31, 2015).

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 and/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 the Company's access to capital markets and debt securities issues.

Opsens Inc.

Notes to Consolidated Financial Statements

Years ended August 31, 2016 and 2015

26. Financial Instruments (continued)

Risk Management (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, 2016 and August 31, 2015:

August 31, 2016	Carrying amount	Cash flows	0 to 12 months	12 to 24 months	After 24 months
	\$	\$	\$	\$	\$
Accounts payable and accrued liabilities	2,041,873	2,041,873	2,041,873	-	-
Long-term debt	1,784,654	1,930,582	530,651	502,285	897,646
Convertible debenture	3,792,839	2,898,533	-	2,898,533	-
Total	7,619,366	6,870,988	2,572,524	3,400,818	897,646

August 31, 2015	Carrying amount	Cash flows	0 to 12 months	12 to 24 months	After 24 months
	\$	\$	\$	\$	\$
Accounts payable and accrued liabilities	1,657,962	1,657,962	1,657,962	-	-
Long-term debt	695,088	862,821	244,458	180,646	437,717
Convertible debenture	2,998,702	2,907,594	-	-	2,907,594
Total	5,351,752	5,428,377	1,902,420	180,646	3,345,311

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

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 at August 31, 2016, the Company was holding more than 92% (93% as at August 31, 2015) of its cash and cash equivalents in all-time redeemable term deposits.

All else being equal, a hypothetical 1% interest rate increase would have had an unfavourable impact of \$2,487 on net loss and comprehensive loss for the year ended August 31, 2016 (unfavourable impact of \$1,100 for the year ended August 31, 2015). A hypothetical 1% interest rate decrease would have had a favourable impact of \$3,670 on net loss and comprehensive loss for the year ended August 31, 2016 (favourable impact of \$1,300 for the year ended August 31, 2015).

Opsens Inc.

Notes to Consolidated Financial Statements Years ended August 31, 2016 and 2015

26. Financial Instruments (continued)

Risk Management (continued)

Financial expenses (revenues)

	Years ended August 31,	
	2016	2015
	\$	\$
Interest and bank charges	57,298	60,868
Interest on long-term debt	44,967	32,665
Interest and accreted interest on convertible debenture (note 14)	69,629	83,225
Gain on foreign currency translation	(3,988)	(23,746)
Interest income	(111,042)	(153,578)
	56,864	(566)

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 at August 31, 2016 and 2015, the Company was holding 100% of its cash equivalents portfolio in all-time redeemable term deposits with financial institutions with high creditworthiness.

Foreign Exchange Risk

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

Foreign Currency Sensitivity Analysis

For the year ended August 31, 2016, if the Canadian dollar had strengthened 10% against the US dollar with all other variables held constant, net loss and comprehensive loss would have been \$260,000 lower (\$11,000 higher for the year ended August 31, 2015). Conversely, if the Canadian dollar had weakened 10% against the US dollar with all other variables held constant, net loss and comprehensive loss would have been \$260,000 higher for the year ended August 31, 2016 (\$11,000 lower for the year ended August 31, 2015).

For the year ended August 31, 2016, if the Canadian dollar had strengthened 10% against the Euros with all other variables held constant, net loss and comprehensive loss would have been \$159,000 higher (\$20,000 higher for the year ended August 31, 2015). Conversely, if the Canadian dollar had weakened 10% against the Euros with all other variables held constant, net loss and comprehensive loss would have been \$159,000 lower for the year ended August 31, 2016 (\$20,000 lower for the year ended August 31, 2015).

For the year ended August 31, 2016, if the Canadian dollar had strengthened 10% against the British pound with all other variables held constant, net loss and comprehensive loss would have been \$42,000 higher (nil for the year ended August 31, 2015). Conversely, if the Canadian dollar had weakened 10% against the British pound with all other variables held constant, net loss and comprehensive loss would have been \$42,000 lower for the year ended August 31, 2016 (nil for the year ended August 31, 2015).

Opsens Inc.

Notes to Consolidated Financial Statements Years ended August 31, 2016 and 2015

26. Financial Instruments (continued)

Risk Management (continued)

Foreign Currency Sensitivity Analysis (continued)

As at August 31, 2016 and August 31, 2015, the risk to which the Company was exposed is established as follows:

	As at August 31, 2016	As at August 31, 2015
	\$	\$
Cash and cash equivalents (US\$125,202; US\$2,097,017 as at August 31, 2015)	163,903	2,759,045
Cash and cash equivalents (Euro 22,450; nil as at August 31, 2015)	32,842	-
Trade and other receivables (US\$440,847; US\$182,630 as at August 31, 2015)	578,410	240,286
Trade and other receivables (Euro 205,129; Euro 53,625 as at August 31, 2015)	300,083	79,167
Trade and other receivables (British pound 85,745; nil as at August 31, 2015)	147,679	-
Accounts payable and accrued liabilities (US\$317,632; US\$289,251 as at August 31, 2015)	(416,288)	(380,567)
Convertible debenture (US\$2,144,864; US\$2,092,368 as at August 31, 2015)	(2,813,204)	(2,752,929)
Embedded derivative (US\$746,900; US\$186,800 as at August 31, 2015)	(979,635)	(245,773)
Total	(2,986,210)	(300,771)

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, sales and marketing 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, long-term debts, investment tax credits and government assistance, interest income and public equity offerings.

As at August 31, 2016, the Company's working capital amounted to \$9,502,625 (\$8,492,636 as at August 31, 2015), including cash and cash equivalents of \$5,903,040 (\$7,203,612 as at August 31, 2015). The accumulated deficit at the same date was \$30,539,014 (\$21,257,345 as at August 31, 2015). Based on the Company's assessment, which takes into account current cash and cash equivalents, 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 consolidated statements of financial position date of August 31, 2016.

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.

Opsens Inc.

Notes to Consolidated Financial Statements

Years ended August 31, 2016 and 2015

27. Capital Management (continued)

For the years ended August 31, 2016 and 2015, the Company has not been in default under any of its obligations regarding the long-term debt.

28. Approval of Consolidated Financial Statements

The consolidated financial statements were approved by the Board of Directors and authorized for issue on November 15, 2016.