

## **MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE YEAR ENDED AUGUST 31, 2018**

The following comments are intended to provide a review and analysis of the results of operations, financial condition and cash flows of Opsens Inc. for the fourth quarter and year ended August 31, 2018 in comparison with the corresponding periods ended August 31, 2017. In this Management's Discussion and Analysis (MD&A), Opsens, "the Company", "we", "us" and "our" mean Opsens Inc. and its subsidiary. This MD&A should be read and interpreted in conjunction with the information contained in our annual consolidated financial statements for the years ended August 31, 2018 and 2017, which have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board. This document was prepared on November 27, 2018. All amounts are in Canadian dollars unless otherwise indicated.

This MD&A contains forward-looking statements with respect to the Company. These forward-looking statements, by their nature, require the Company to make certain assumptions and necessarily involve known and unknown risks and uncertainties that could cause actual results to differ materially from those expressed or implied in these forward-looking statements. Forward-looking statements are not guarantees of performance. These forward-looking statements, including financial outlooks, may involve, but are not limited to, comments with respect to the Company's business or financial objectives, its strategies or future actions, its targets, expectations for financial condition or outlook for operations and future contingent payments. Words such as "may", "will", "would", "could", "expect", "believe", "plan", "anticipate", "intend", "estimate", "continue", or the negative or comparable terminology, as well as terms usually used in the future and conditional, are intended to identify forward-looking statements.

Information contained in forward-looking statements is based upon certain material assumptions that were applied in drawing a conclusion or making a forecast or projection, including management's perceptions of historical trends, current conditions and expected future developments, as well as other considerations that are believed to be appropriate in the circumstances. The Company considers these assumptions to be reasonable based on all currently available information, but cautions the reader that these assumptions regarding future events, many of which are beyond its control, may ultimately prove to be incorrect since they are subject to risks and uncertainties that affect the Company and its business. The forward-looking information set forth therein reflects the Company's expectations as of November 27, 2018 and is subject to change after this date. The Company disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, other than as required by law.

### **OVERVIEW**

The Company's primary focus is the measurement of Fractional Flow Reserve (FFR) in the interventional cardiology market. This measurement is mainly used for the diagnosis of blockages in the coronary arteries and has begun to extend to other peripheral specialties. Opsens offers an optical guidewire (OptoWire) to measure pressure to diagnose and improve clinical outcomes in patients with coronary heart disease. Opsens also operates in the industrial sector through its wholly-owned subsidiary Opsens Solutions Inc. (Solutions). Solutions develops, manufactures and installs innovative measurement solutions using fiber optic sensors for critical and demanding industrial applications.

Opsens owns nine patents and has three patents pending to protect technologies in its medical and industrial sectors.

### **SECTORS OF ACTIVITY**

**In the medical field**, Opsens markets the OptoWire and the OptoMonitor for interventional cardiology to provide cardiologists with an optimized pressure guidewire to navigate coronary arteries and cross blockages with ease while measuring intracoronary blood pressure. This procedure is called measurement of FFR or more broadly, physiology.

Opsens has obtained the required commercial approvals for the OptoWire and OptoMonitor in the world's largest markets, namely the United States, Europe, Japan and Canada. Combined, these markets represent approximately 85% of the global market for FFR products. Furthermore, Opsens developed a product that allows physicians to diagnose the coronary-artery blockages at rest. This new product, known as dPR, is Opsens' resting pressure measurement

method. It is available through the OptoMonitor and works in combination with the OptoWire. Opsens' dPR is already being marketed in Japan while the Company is awaiting regulatory approvals for the U.S., Canada and Europe.

Opsens has established a direct sales force in the U.S. and Canada and utilizes distributors in Europe (including the Middle East) and Japan.

Opsens also provides a broad selection of miniature optical sensors to measure pressure and temperature that can be used in a wide range of applications and can be integrated into other medical devices.

**In the industrial sector**, Opsens' expertise, technology and products meet the needs of multiple markets, including aerospace, semiconductor, geotechnical, structural, oil and gas, mining, laboratories and others. Opsens' portfolio of products and technologies can be adapted to measure various parameters under the most difficult conditions and bring significant benefits in terms of optimizing production and reducing risks to the environment and health.

## MARKET OVERVIEW

**In the medical field**, particularly in interventional cardiology, FFR represents a significant and growing opportunity for the Company. In recent years, the prevalence of coronary heart disease has increased rapidly. In the AHA report, "Heart Disease and Stroke Statistics - 2017", which is based on health data compiled in more than 190 countries, coronary heart disease is the leading cause of death worldwide with 17.3 million deaths per year. This number is expected to exceed 23.6 million deaths in 2030. Coronary heart disease is one of the leading causes of death in the developed world, and the cost of managing and treating these diseases is a significant burden to society. The benefits of FFR were demonstrated in various clinical studies such as FAME I and FAME II published in 2009 and 2012, respectively in the New England Journal of Medicine. The FAME I study showed that the FFR-guided treatment rather than the standard angiography alone led to a reduction in mortality, myocardial infarction, readmission for percutaneous coronary intervention and coronary bypass by about 30% after a year. Several reports have also shown inaccurate diagnoses that can lead to misuse or inappropriate use of "stents."

The measurement of FFR has been shown to be more accurate and now holds the highest recommendation from the European Society of Cardiology (Class IA).

In the United States, support for the increasing use of FFR continues to grow. In March 2017, the appropriate use criteria ("AUC") for stable ischemic heart disease were updated to emphasize the use of FFR given its importance. The goal of the AUC is to provide a framework for assessing general clinical practices and improving the quality of care. The new AUCs reflect a recognition of the role and value of FFR, which should be beneficial for the expand use of FFR technologies. Payers, including Medicare, use the AUC to help formulate their repayment criteria.

Recently, in Japan, the Ministry of Health, Labour and Welfare (MHLW) introduced a new regulation requiring the physiology evaluation of all coronary artery stenosis prior to its treatment, specifically mentioning FFR as an evaluation method. The MHLW revised the medical fees and established a requirement to assess functional ischemia (blockage of arteries) prior to treatment.

These recent developments contribute to the steady growth of the FFR market. According to management and industry sources estimates <sup>(1)</sup>, this market exceeds US\$500 million worldwide in 2018 and is expected to exceed US\$1 billion annually in the medium term.

(1) Opsens FFR Market Calculations based on R. Scott Huennekens, "Volcano's CEO Hosts NASDAQ Analyst Day" *TRANSCRIPT* p.5 (2013-03-7), JOHN T. DAHLDORF, "Volcano's Annual Report 2012" and St. Jude Medical 2015 – Investors Conference , February 6, 2015.

**In the industrial field**, the vast market presents numerous opportunities. The Company focuses mainly on the following markets:

- Structural Integrity Monitoring Market: Opportunities are mainly related to stress, load and displacement measures. The applications are in geotechnics, civil engineering, energy and oil and gas. The new industrial versions of strain sensors such as the extensometer and the load cell are the main flagship products for these applications;
- Pressure Monitoring Solutions Market: Opportunities are mainly related to absolute and differential pressure measurements. Pressure measurements are at the heart of many industrial applications in energy, geotechnics, oil and gas, and aerospace. The new industrial versions of the pressure sensor and the latest of a differential pressure sensor are the main flagship products for these applications;
- Traditional Niche Applications Market: Opsens is currently engaged in niche applications such as semiconductor, electro-explosive devices (EEDs), Steam Assisted Gravity Drainage (SAGD) in Western Canada, and in laboratories (special projects and customized products).

## COMPETITION

**In the medical sector**, the FFR measurement market has five competitors and is currently dominated by two major players who commercialize a first-generation electrical technology. Competition is based on technological advantages, brand recognition, customer service, marketing support and price.

**In the industrial sector**, there are significant number of competitors in the field. This competition is based primarily on technological advantages. Our direct competition is made up of both open and closed-end companies with a global presence.

## CORPORATE GROWTH STRATEGY

Opsens' growth strategy is to become a key player in the medical sector, particularly in the field of interventional cardiology, focusing on the measurement of FFR, where its products and technologies offer major advantages over the competition. The Company also aims to capitalize on its technologies and products in the industrial markets. To this end, the Company implements its corporate strategy based on its various segments of operations.

**In the medical sector,** the Company's growth strategy in the field of interventional cardiology is carried out by:

- Increase of its market shares in the fast-growing FFR market

To achieve this, management has set up the following sales force:

- Direct Sales Force: Opsens has established a sales team, hiring a seasoned staff with solid expertise in interventional cardiology. This sales force has been implemented to increase Opsens' market and commercialization penetration in the United States and Canada;
- Distributor Sales Force: Opsens has signed distribution agreements in Europe, the Middle East, Japan and Asia. These agreements allow Opsens to focus on market penetration with leading business partners in their respective markets.

The FFR market has started focusing on new measurements performed at rest. These measurements require greater accuracy and constant and repeated guidewire performance over time. With its second-generation optical sensor, the Company is convinced that there will be a growing interest with the OptoWire's recognized features that produce:

- Better design features and product specifications for improved mechanical performances (e.g., torque capacity and handling);
- A no-drift<sup>(2)</sup> measurement technology for improved reliability of FFR measurements, essential in cardiologists' decision-making. Competing FFR technologies have higher drift levels;
- Better connectivity as the OptoWire is insensitive to blood contamination. It can be easily reconnected without compromising accuracy of the measurement.

- Clinical Data

The Company is presently undertaking and planning to conduct clinical studies. The objective of these studies is to demonstrate the superiority of Opsens' FFR products.

- Innovation

In this ever-evolving and state-of-the-art market, Opsens plans to leverage its expertise in fiber optic sensing medical devices to create new FFR products and develop new fiber optic sensing technologies for physiology assessment that address other invasive unmet medical needs. Commitment to innovation has always been a driving force behind the Company's success and desire to improve its intellectual property portfolio and value proposition for customers.

In other medical products, Opsens offers a broad selection of miniature optical sensors to measure pressure and temperature that can be used in a wide range of applications and that can be integrated into other medical devices. The Company also aims to partner with key players in the industry, such as its partnership with Abiomed inc. (Abiomed), for the use of its miniature sensors and technology.

**In the industrial sector**, the Company's business strategy is achieved by:

- Development of a sales and distribution network Opsens Solutions has set up a network development strategy to increase its visibility in the various markets;
- Target Market Potential markets for Opsens Solutions' technology are very broad—targeting only specific markets such as semiconductors, aerospace and laboratories. These are markets where Opsens' products offer unique advantages over its competitors;
- Innovation Opsens Solutions continually invests in innovations of its products, so they can offer unique advantages over its competitors. For example, the Company's optical strain and pressure sensors have received the attention of major players in the aerospace industry because they require no shielding or grounding and because of their ease of deployment.

#### NON-IFRS FINANCIAL MEASURES - EBITDACO

The Company quarterly reviews net loss and Earnings Before Interest, Taxes, Depreciation, Amortization, Change in fair value of embedded derivative and Stock-based compensation costs (EBITDACO). EBITDACO has no normalized sense prescribed by IFRS. It is not very probable that this measure is comparable with measures of the same type presented by other issuers. EBITDACO is defined by the Company as the addition of net loss, financial expenses, depreciation and amortization, change in fair value of embedded derivative and stock-based compensation costs. The Company uses EBITDACO for the purposes of evaluating its historical and prospective financial performance. This measure also helps the Company to plan and forecast for future periods as well as to make operational and strategic decisions. The Company believes that providing this information to investors, in addition to IFRS measures, allows them to see the Company's results through the eyes of management, and to better understand its historical and future financial performance.

#### Reconciliation of EBITDACO to Net Loss

(In thousands of Canadian dollars)	Year Ended August 31, 2018	Year Ended August 31, 2017	Year Ended August 31, 2016
	\$	\$	\$
Net loss	(4,550)	(6,537)	(9,282)
Financial expenses (revenues)	(50)	(7)	57
Amortization of property, plant and equipment	801	699	549
Amortization of intangible assets	98	90	73
Change in fair value of embedded derivative	501	164	732
<b>EBITDAC</b>	<b>(3,200)</b>	<b>(5,591)</b>	<b>(7,871)</b>
Stock-based compensation costs	618	864	451
<b>EBITDACO</b>	<b>(2,582)</b>	<b>(4,727)</b>	<b>(7,420)</b>

The positive variance of EBITDACO for fiscal 2018 when compared to last year is explained by the increase in revenues in the medical and industrial sectors. This was partly offset by higher sales and marketing and research and development expenses as explained further below.

## SELECTED CONSOLIDATED FINANCIAL DATA

(In thousands of Canadian dollars, except for information per share)	Year Ended	Year Ended	Year Ended
	August 31, 2018	August 31, 2017	August 31, 2016
	\$	\$	\$
<b>Revenues</b>			
Sales			
Medical	19,991	14,895	6,062
Industrial	2,121	1,483	3,172
	22,112	16,378	9,234
Licensing agreement	1,958	1,374	367
	24,070	17,752	9,601
Cost of sales	11,330	10,252	7,970
<b>Gross margin</b>	12,740	7,500	1,631
Gross margin percentage	53%	42%	17%
<b>Expenses (revenues)</b>			
Administrative	3,869	3,774	3,685
Sales and marketing	9,273	6,975	3,694
Research and development	3,697	3,131	2,744
Financial expenses (revenues)	(50)	(7)	57
Change in fair value of embedded derivative	501	164	733
	17,290	14,037	10,913
<b>Net loss and comprehensive loss</b>	(4,550)	(6,537)	(9,282)
<b>Basic and diluted net loss per share</b>	(0.05)	(0.08)	(0.14)

### Revenues

The Company reported revenues of \$24,070,000 for the year ended August 31, 2018 compared to revenues of \$17,752,000 for the corresponding period in 2017, an increase of \$6,318,000 or 36%.

Sales in the medical sector totalled \$19,991,000 for the year ended August 31, 2018 compared to sales of \$14,895,000 for the same period in 2017. The increase in sales in the medical sector of \$3,198,000 is mainly explained by higher original equipment manufacturer (OEM) medical sales. FFR sales totalled \$14,249,000 for the year ended August 31, 2018, an increase of \$1,898,000 compared to the \$12,351,000 reported for the same period last year.

Sales in the industrial sector totalled \$2,121,000 for the year ended August 31, 2018 compared to sales of \$1,483,000 for the same period in 2017. This increase is mostly explained by higher volume of orders compared to last year.

For the year ended August 31, 2018 and 2017, pricing fluctuations did not have a significant impact on revenues.

The Company's revenues are generated in U.S. dollars, Canadian dollars, Euros and British pounds; fluctuations in the exchange rate affect revenues and net loss. For the year ended August 31, 2018, revenues were positively affected by \$372,000 compared to the same period last year (sales were negatively impacted by \$143,000 for the year ended August 31, 2017).

As at August 31, 2018, Opsens' total backlog of orders amounted to \$5,266,000 (\$5,608,000 as at August 31, 2017).

## **Gross Margin**

Information and analysis in this section do not take into consideration licensing revenues (\$1,958,000 for the year ended August 31, 2018 and \$1,374,000 for the year ended 2017, respectively).

Gross margin was \$10,782,000 for the year ended August 31, 2018 compared to \$6,126,000 for the same period last year. The gross margin percentage increased from 37% for the year ended August 31, 2017 to 49% for the year ended August 31, 2018. The increase in gross margin is mainly explained by higher sales from our OEM and FFR medical products line, as previously explained. The increase in gross margin percentage reflects a higher sales volume and the related benefits of scale combined with enhanced productivity.

## **Administrative Expenses**

Administrative expenses were \$3,869,000 and \$3,774,000, respectively, for the years ended August 31, 2018 and 2017. The increase is mainly explained by higher salaries and fringe benefits, professional fees, insurance fees and recruiting expenses. This was partly offset by a lower allowance for doubtful accounts.

## **Sales and Marketing Expenses**

Sales and marketing expenses totalled \$9,273,000 for the year ended August 31, 2018, an increase of \$2,298,000 over the \$6,975,000 reported during the same period in 2017. The increase is largely explained by higher headcount, commissions, tradeshow, travelling and subcontractors' expenses when compared to last year due to the expansion of OpSens' direct sales presence for its FFR products in the United States.

## **Research and Development Expenses**

Research and development expenses totalled \$3,697,000 for the year ended August 31, 2018, an increase of \$566,000 over the \$3,131,000 reported during the same period in 2017. The increase is mainly explained by higher salaries and fringe benefits, supplies and subcontractors for our FFR activities.

## **Financial Revenues**

Financial revenues reached \$50,000 for the year ended August 31, 2018 compared to \$7,000 for the same period in 2017. The increase in financial revenues is explained by lower interest expenses of \$56,000 on long-term debt.

## **Change in Fair Value of the Embedded Derivative**

The change in fair value of embedded derivative comes from the change in fair market value of the conversion option component of the convertible debenture. The convertible debenture contained a cash settlement feature, which under IAS 32, *Financial Instruments: Presentation*, was accounted for as a compound financial 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 were measured at fair value on initial recognition. The debt component was subsequently accounted for at amortized cost using the effective interest rate method. The embedded derivative was subsequently measured at fair value at each reporting date with gains and losses in fair value recognized through profit or loss. During the year ended August 31, 2018, an expense of \$501,000 (\$164,000 for the year ended August 31, 2017) was recorded in the consolidated statements of loss and comprehensive loss. On November 16, 2017 the holder of the debenture exercised its conversion option.

## **Net Loss**

As a result of the foregoing, net loss for the year ended August 31, 2018 was \$4,550,000 compared to \$6,537,000 for the same period in 2017.

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION DATA

(In thousands of Canadian dollars)	As at August 31, 2018	As at August 31, 2017	As at August 31, 2016
	\$	\$	\$
Current assets	19,785	23,607	12,570
Total assets	23,586	27,610	16,861
Current liabilities	3,438	7,698	3,067
Long-term liabilities	1,475	1,947	6,482
Shareholders' equity	18,673	17,965	7,312

Total assets as at August 31, 2018 were \$23,586,000 compared to \$27,610,000 as at August 31, 2017. The decrease is mainly related to lower cash and cash equivalents of \$1,684,000, by lower trade and other receivables of \$1,403,000 and by lower tax credits receivable of \$562,000. Significant efforts have been made over the year to decrease the delay in conversion of accounts receivable.

Current liabilities totalled \$3,438,000 as at August 31, 2018 compared to \$7,698,000 as at August 31, 2017. The decrease is mainly explained by the conversion of the convertible debenture into shareholders' equity amounting to \$3,853,000. Also, this decrease is explained by lower deferred revenues of \$325,000.

Long-term liabilities totalled \$1,475,000 as at August 31, 2018 compared to \$1,947,000 as at August 31, 2017, a decrease of \$472,000. The decrease is mainly explained by a lower portion of long-term debt of \$352,000.

## SUMMARY OF CONSOLIDATED QUARTERLY RESULTS

The summary below presents the periods in which Opensens published unaudited interim financial statements.

(Unaudited, in thousands of Canadian dollars, except for information per share)	Three-month period ended August 31, 2018	Three-month period ended May 31, 2018	Three-month period ended February 28, 2018	Three-month period ended November 30, 2018
	\$	\$	\$	\$
Revenues	5,866	6,398	5,442	6,364
Net loss for the period	(1,501)	(846)	(1,267)	(936)
Basic and diluted net loss per share	(0.02)	(0.01)	(0.01)	(0.01)

(Unaudited, in thousands of Canadian dollars, except for information per share)	Three-month period ended August 31, 2017	Three-month period ended May 31, 2017	Three-month period ended February 28, 2017	Three-month period ended November 30, 2016
	\$	\$	\$	\$
Revenues	4,307	4,892	4,808	3,745
Net loss for the period	(1,153)	(1,842)	(1,001)	(2,541)
Basic and diluted net loss per share	(0.02)	(0.02)	(0.01)	(0.03)

For the medical sector, activities are generally slower in the fourth quarter due to the summer vacations of physicians.

## LIQUIDITY AND CAPITAL RESOURCES

As at August 31, 2018, the Company had cash and cash equivalents of \$10,887,000 compared to \$12,570,000 as at August 31, 2017. Of this amount as at August 31, 2018, \$9,856,000 was invested in highly-liquid, safe investments. As at August 31, 2018, Opsens had a working capital of \$16,347,000, compared to \$15,909,000 as at August 31, 2017. The increase in working capital is mainly related to the conversion of the convertible debenture

On February 6, 2018, the Company entered into a loan agreement of \$213,840, net of transaction costs of \$2,160, with Investissement Québec. This loan bears interest at prime rate plus 0.25%, is payable in monthly instalments of \$4,500, and will be maturing in February 2022. This loan is secured by a movable hypothec on the Company's assets. Under this loan agreement, the Company is subject to certain covenants with respect to maintaining certain financial ratio, which were met as of the date of this MD&A.

On December 8, 2016, the Company completed a public offering for aggregate gross proceeds of \$14,950,500. In connection with the offering, the Company issued a total of 9,967,000 shares at a price of \$1.50 per share. Expenses of the offering include underwriting fees of \$889,530 and other professional fees and miscellaneous fees of \$305,403 for total fees of \$1,194,933.

The Company intends to use the proceeds from the investment as follows:

(In thousands of Canadian dollars)	Use of funds as planned	Over-allotment	Funds available to Opsens from equity financing	Funds used as at August 31, 2018	Reclassification of use of funds as planned	Funds remaining to be used
	\$	\$	\$	\$	\$	\$
Net proceeds from the issue, including the over-allotment option	11,870,470	1,885,097	13,755,567	13,755,567	-	-
<b>Use of proceeds</b>						
Sales and marketing	7,869,970	1,885,097	9,755,067	10,580,830	825,763	-
Research and development						
Production of clinical data	920,000	-	920,000	94,237	(825,763)	-
Expanded development of Opsens' FFR technology	2,360,000	-	2,360,000	2,360,000	-	-
Working capital	720,500	-	720,500	720,500	-	-
<b>Total use of proceeds</b>	11,870,470	1,885,097	13,755,567	13,755,567	-	-

As production of clinical data was less expensive than expected by management, funds were used for marketing activities of Opsens' FFR products.

On May 27, 2016, the Company entered into a loan agreement of \$836,000, net of transaction costs of \$9,000, with Investissement Québec. This loan bears interest at prime rate plus 0.25%, is payable in monthly instalments of \$18,750, and will be maturing in May 2020. This loan is secured by a movable hypothec on the Company's assets. Under this loan agreement, the Company is subject to certain covenants with respect to maintaining certain financial ratios, which were met as of the date of this MD&A. Furthermore, on March 7, 2017, the Company received the final disbursement of the loan amounting to \$55,000.

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. Expenses of the offering include professional fees and miscellaneous expenses for total fees of \$102,563.

On May 20, 2016, the Company received an amount of \$894,000 from the landlord in accordance with the lease signed by the Company to relocate its medical activities. This amount is presented in the balance sheet under the caption "Deferred lease inducements."

On April 18, 2016, the Company entered into a loan agreement amounting to \$497,500, net of transaction costs of \$2,500, with Desjardins. This loan bears interest at prime rate plus 2.0%, is payable in monthly instalments of \$10,417, calculated over an amortization period of forty-eight (48) months and will be maturing in April 2018. This loan is secured by a movable hypothec on the Company's assets. Under this loan agreement, the Company is subject to certain covenants with respect to maintaining certain financial ratios, which were met as of the date of this MD&A.

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 OptoWire product for the FFR market. This contribution is paid out based on presentation by the Company of invoices related to specific expenses since May 22, 2015. On April 1, 2016, the Company received an amount of \$65,000 of which \$28,000 was recognized against administrative and sales and marketing expenses. On March 29, 2017, the Company received the final disbursement of the contribution amounting to \$135,000 of which \$48,000 was recognized against administrative and sales and marketing expenses.

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. Expenses of the offering include underwriting fees of \$276,202 and other professional fees and miscellaneous expenses of \$323,713 for total fees of \$599,915.

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.

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 amount to \$10,083.

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.

Based on its cash and cash equivalents position, Opsens has the financial resources necessary to maintain short-term operations, honour its commitments and support its anticipated growth and development activities. From a medium-term perspective, Opsens may need to raise additional financing by issuing equity securities and/or debt. From a long-term perspective, there is uncertainty about obtaining additional financing, given the risks and uncertainties identified in the *Risks and Uncertainties* section of the Annual Information Form. Changes in cash and cash equivalents will largely depend on the rate of revenue growth in upcoming quarters.

## SUMMARY OF CASH FLOWS

(In thousands of Canadian dollars)	Year Ended	Year Ended
	August 31, 2018	August 31, 2017
	\$	\$
Operating activities	(1,052)	(8,777)
Investing activities	(530)	(430)
Financing activities	(148)	15,888
Effect of foreign exchange rate changes on cash and cash equivalents	47	(14)
<b>Net change in cash and cash equivalents</b>	<b>(1,683)</b>	<b>6,667</b>

### Operating Activities

Cash flows used by our operating activities for the year ended August 31, 2018 were \$1,052,000 compared to \$8,777,000 for the same period last year. The decrease in cash flows used by our operating activities is mainly explained by a positive variance of EBITDACO as explained previously. Also, the decrease is explained by positive changes in non-cash operating working capital items mostly related to trade and other receivables, inventories and tax credits receivable.

### Investing Activities

For the year ended August 31, 2018, cash flows used by our investing activities reached \$530,000 compared to \$430,000 for the year ended August 31, 2017. The increase is mainly explained by an increase in the acquisition of property, plant and equipment for the medical sector compared to the same period last year. This is partly offset by the receipt of a tax credit for the acquisition of property, plant and equipment.

### Financing Activities

For the year ended August 31, 2018, cash flows used by financing activities reach \$148,000 compared to cash flows generated of \$15,888,000 for the year ended August 31, 2017. The decrease is mainly explained by the fact that we closed an equity financing of \$14,950,500 during the year ended August 31, 2017.

**COMMITMENTS**

**Leases**

The Company leases offices in Quebec under operating leases expiring on April 30, 2020 and September 30, 2025. The main agreement is renewable for an additional five-year period.

Future payments for the leases, required in each of the forthcoming years total \$4,638,249 as follows:

	\$
2019	736,967
2020	695,706
2021	600,915
2022	613,800
2023	628,951
Thereafter	1,361,910

**Other**

On September 8, 2017, the Company signed an agreement amounting to \$1,574,734 with a supplier for raw material purchases for a 24-month period. As at August 31, 2018, the remaining amount regarding this agreement is \$787,367.

**SUBSEQUENT EVENT**

On September 28, 2018, the Company achieved a technical milestone related to the agreement with Abiomed and the Company received a payment of \$2,260,900 (US\$1,750,000) that will be recorded as licensing revenues in the consolidated statements of loss and comprehensive loss for fiscal year 2019.

On October 15, 2018, the Company signed a loan agreement amounting to a maximum of \$525,000 for the acquisition of property, plant and equipment.

## INFORMATION BY REPORTABLE SEGMENTS

### *Segmented Information*

The Company is organized into two segments: Medical and Industrial.

Medical segment: In this segment, Opsens focuses mainly on the measure of FFR in interventional cardiology but also supplies a wide range of miniature optical sensors to measure pressure and temperature to be used in a wide range of applications that can be integrated in others medical devices.

Industrial segment: In this segment, Opsens develops, manufactures and installs innovative fibre optic sensing solutions for critical and 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.

The same accounting policies are used for both reportable segments. Operations are carried out in the normal course of business and are measured at the exchange amount, which approximates prevailing prices in the markets.

	Years ended August 31,					
	2018			2017		
	Medical	Industrial	Total	Medical	Industrial	Total
	\$	\$	\$	\$	\$	\$
External sales	21,949,230	2,120,501	24,069,731	16,269,011	1,482,985	17,751,996
Internal sales	-	149,210	149,210	-	269,505	269,505
Gross margin	11,416,874	1,322,538	12,739,412	6,886,549	610,992	7,497,541
Amortization of property, plant and equipment	728,375	72,220	800,595	608,453	90,163	698,616
Amortization of intangible assets	82,292	15,396	97,688	75,927	14,566	90,493
Financial expenses (revenues)	(320,393)	270,289	(50,104)	(289,936)	282,743	(7,193)
Change in fair value of embedded derivative	501,250	-	501,250	163,745	-	163,745
Net loss	(4,240,173)	(309,311)	(4,549,484)	(4,879,287)	(1,659,988)	(6,539,275)
Acquisition of property, plant and equipment	642,054	49,624	691,678	490,155	9,024	499,179
Additions to intangible assets	79,076	21,155	100,231	86,285	18,515	104,800
Segment assets	21,982,087	1,603,809	23,585,896	25,992,083	1,617,718	27,609,801
Segment liabilities	4,651,422	261,511	4,912,933	9,487,517	156,960	9,644,477

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

	Years ended August 31,	
	2018	2017
	\$	\$
Gross margin per reportable segment	12,739,412	7,497,541
Elimination of intersegment profits	-	2,232
<b>Gross margin</b>	<b>12,739,412</b>	<b>7,499,773</b>
Net loss per reportable segments	(4,549,484)	(6,539,275)
Elimination of intersegment profits	-	2,232
<b>Net loss and comprehensive loss</b>	<b>(4,549,484)</b>	<b>(6,537,043)</b>

*Geographic sector's information*

	Years ended August 31,	
	2018	2017
	\$	\$
Revenue per geographic sector		
United States	10,250,126	5,100,077
Japan	6,539,888	6,586,561
Canada	1,987,216	1,625,567
Other*	5,292,501	4,439,791
	<b>24,069,731</b>	<b>17,751,996</b>

\* 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, 2018, revenues from two clients represented individually more than 10% of the total revenues of the Company, i.e., 27% (medical's reportable segment) and 25% (medical's reportable segment).

During the year ended August 31, 2017, revenues from two clients represented individually more than 10% of the total revenues of the Company, i.e., 40% (medical's reportable segment) and 17% (medical's reportable segment).

*Medical Segment*

Information and analysis in this section for sales and gross margin do not take into account licensing revenues (\$1,958,000 for the year ended August 31, 2018 and \$1,374,000 for the year ended August 31, 2017).

For the year ended August 31, 2018, sales from medical segment were \$19,991,000 compared to \$14,895,000 for the year ended August 31, 2017, an increase of \$5,096,000. The increase is explained by higher OEM sales of \$3,198,000 and by higher FFR sales of \$1,898,000.

Gross margin was \$9,459,000 for the year ended August 31, 2018 compared to \$5,512,000 for the year ended August 31, 2017, an increase of \$3,947,000. The gross margin percentage for the year ended August 31, 2017 was 37% compared to 47% for the year ended August 31, 2018. The increase in gross margin is mainly explained by higher sales from our OEM products line and FFR products combined with a decrease in our production cost. The increase in gross margin percentage reflects higher sales volume and the related economies of scale combined with enhanced productivity.

Net loss for the medical segment was \$4,240,000 for the year ended August 31, 2018 compared to \$4,879,000 for the same period last year. The decrease in net loss is mainly explained by higher medical sales and also the improvement of the gross margin, partly offset by higher sales and marketing expenses, as explained previously.

Working capital for the medical segment as at August 31, 2018 was \$15,183,000 compared to \$14,675,000 as at August 31, 2017. The increase of \$508,000 is mainly explained by the conversion of the convertible debenture into common shares for an amount of \$3,853,000. This is partly offset by lower trade and other receivables of \$1,722,000 and by lower cash and cash equivalents of \$1,586,000.

#### *Industrial Segment*

For the year ended August 31, 2018, sales from industrial segment were \$2,121,000 compared to \$1,483,000 for the year ended August 31, 2017, an increase of \$638,000. This increase is mostly explained by significant orders placed by customers.

Gross margin was \$1,323,000 for the year ended August 31, 2018 compared to \$611,000 for the same period in 2017, an increase of \$712,000. Gross margin percentage increase from 35% for the year ended August 31, 2017 to 58% for the year ended August 31, 2018. The increase in gross margin percentage is mainly explained by sales of products with a higher margin over last year.

Net loss for the industrial segment was \$309,000 for the year ended August 31, 2018 compared to \$1,660,000 for the year ended August 31, 2017. The decrease in net loss is mainly explained by an increase in sales and by a decrease in administrative and marketing expenses.

Working capital for the industrial segment as at August 31, 2018 was \$1,163,000 compared to \$1,235,000 as at August 31, 2017. The decrease of \$72,000 is mainly explained by lower tax credits receivable of \$207,000. This is partly offset by higher accounts payable and accrued liabilities of \$98,000.

### **FOURTH QUARTER 2018**

#### **Revenues**

Revenues totalled \$5,866,000 for the quarter ended August 31, 2018 compared to \$4,307,000 a year earlier. The increase is explained by higher FFR sales of \$1,288,000 and industrial sales revenues of \$308,000.

#### **Gross Margin**

Information and analysis in this section do not take into consideration licensing revenues (\$92,000 the quarters ended August 31, 2018 and 2017).

Gross margin was \$2,929,000 for the three-month period ended August 31, 2018 compared to \$1,913,000 for the same period last year, an increase of \$1,016,000. The gross margin percentage increased from 44% for the three-month period ended August 31, 2017 to 51% for the three-month period ended August 31, 2018. The increase in gross margin is explained by higher medical and industrial sales. The increase in gross margin percentage reflects higher sales volume and the related scale economy combined with enhanced productivity in the medical segment and sales of product with a higher margin in the industrial segment.

#### **Administrative Expenses**

Administrative expenses were \$1,126,000 and \$767,000, respectively, for the three-month periods ended August 31, 2018 and 2017. The increase is mainly explained by higher salaries and fringe benefits and professional fees. This is partly offset by a lower allowance for doubtful accounts.

### Sales and Marketing Expenses

Sales and marketing expenses for the three-month period ended August 31, 2018 totalled \$2,382,000, an increase of \$677,000 over the \$1,705,000 reported during the same period in 2017. The increase is largely explained by a higher headcount, commissions, clinical studies, tradeshows, travelling and subcontractor expenses when compared to last year due to the expansion of Opsens' direct sales presence for its FFR products in the United States.

### Research and Development Expenses

Research and development expenses totalled \$1,046,000 for the three-month period ended August 31, 2018, an increase of \$310,000 over the \$736,000 reported during the same period in 2017. The variation is mainly explained by higher supplies and subcontractors for our FFR activities. This is also explained by a lower tax credits.

### Financial revenues

Financial revenues reached \$32,000 for the three-month period ended August 31, 2018 compared to \$134,000 for the same period last year. The decrease in financial revenues during the period is explained by a less favourable exchange rate of \$121,000. This is partly offset by lower interest on long-term debt of \$20,000.

### Change in Fair Value of the Embedded Derivative

During the three-month period ended August 31, 2018, no expense (\$84,000 for the three-month period ended August 31, 2017) was recorded in the consolidated statements of loss and comprehensive loss.

### Net Loss

As a result of the foregoing, net loss for the three-month period ended August 31, 2018 was \$1,501,000 or \$0.02 per share compared to net loss of \$1,153,000 or \$0.02 per share for the same period in 2017.

### INFORMATION ON SHARE CAPITAL

For the year ended August 31, 2018, the Company granted to some employees, directors and consultant a total of 2,284,500 stock options with an average exercise price of \$0.99, cancelled 1,477,750 stock options with an exercise price of \$1.24, whereas 650,750 stock options with an average exercise price of \$0.30 were exercised, and 427,250 stock options with an exercise price of \$1.14 expired.

For the year ended August 31, 2017, the Company granted to some employees, directors and consultants a total of 2,992,750 stock options with an average exercise price of \$1.49, cancelled 981,750 stock options with an exercise price of \$1.03, while 1,074,250 stock options with an average exercise price of \$0.40 were exercised.

For the year ended August 31, 2018, 2,380,500 warrants with an average exercise price of \$1.55 expired.

For the year ended August 31, 2017, 1,366,468 warrants expired with an average exercise price of \$1.20 and 1,870,528 warrants with an average exercise price of \$1.14 were exercised.

As at November 27, 2018, the following components of shareholders' equity are outstanding:

Common shares	89,968,817
Stock options	5,321,250
<u>Securities on a fully diluted basis</u>	<u>95,290,067</u>

No dividend was declared per share for each share class.

## RELATED PARTY TRANSACTIONS

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

	Years ended August 31,	
	2018	2017
	\$	\$
Professional fees paid to a company controlled by a director	-	59,134

The fees were incurred for the Company's FFR activities.

## FINANCIAL INSTRUMENTS

### Fair Value

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

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

The fair value of the convertible debenture is based on the discounted value of future cash flows under the current financial arrangements at the interest rate the Company expects to currently negotiate for loans with similar terms and conditions and maturity dates. The fair value of the debt component of the convertible debenture was \$2,143,900 as at August 31, 2017 and was classified at Level 2 in the fair value hierarchy.

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

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

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

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

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

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

	As at August 31, 2018			
	Total	Level 1	Level 2	Level 3
	\$	\$	\$	\$
<b>Financial assets (liabilities) measured at fair value:</b>				
Convertible debenture – embedded derivative	-	-	-	-

	As at August 31, 2017			
	Total	Level 1	Level 2	Level 3
	\$	\$	\$	\$
<b>Financial assets (liabilities) measured at fair value:</b>				
Convertible debenture – embedded derivative	(1,097,653)	-	(1,097,653)	-

On November 16, 2017, the Company received a notice of conversion from the holder of the convertible debenture. At the date of the conversion, the embedded derivative must be measured at fair value with gains and losses in fair value recognized in the consolidated statements of net loss. The price use to determine the value of the embedded derivative was the difference between the closing price of the shares of the Company on the TSX Exchange on the trading day immediately preceding the date of the conversion and the conversion price used to determine the common shares issued. For the year ended August 31, 2017, the fair value of the convertible debenture was determined using the Black-Scholes pricing model using an implied volatility of 51%, a discount rate of 1.26% and an expected life of 0.2 years.

### 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 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. In general, 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 checks of all its customers and establishes an allowance for doubtful accounts when accounts are determined to be uncollectible. Two major customers represented 25% of the Company's total accounts receivable as at August 31, 2018 (34% as at August 31, 2017).

As at August 31, 2018, 32% (37% as at August 31, 2017) of the accounts receivable were of more than 90 days whereas 52% (34% as at August 31, 2017) 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, 2018, the allowance for doubtful accounts was established at \$817,823 (\$940,929 as at August 31, 2017).

### 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.

The following are the contractual maturities of the financial liabilities (principal and interest, assuming current interest rates) as at August 31, 2018 and August 31, 2017:

August 31, 2018	Carrying amount	Cash flows	0 to 12 months	12 to 24 months	After 24 months
	\$	\$	\$	\$	\$
Accounts payable and accrued liabilities	2,719,690	2,719,690	2,719,690	-	-
Long-term debt	1,193,112	1,276,509	580,052	488,783	207,674
<b>Total</b>	<b>3,912,802</b>	<b>3,996,199</b>	<b>3,299,742</b>	<b>488,783</b>	<b>207,674</b>

  

August 31, 2017	Carrying amount	Cash flows	0 to 12 months	12 to 24 months	After 24 months
	\$	\$	\$	\$	\$
Accounts payable and accrued liabilities	2,909,516	2,909,516	2,909,516	-	-
Long-term debt	1,445,168	1,580,231	492,722	526,052	561,457
Convertible debenture	3,853,225	2,770,358	2,770,358	-	-
<b>Total</b>	<b>8,207,909</b>	<b>7,260,105</b>	<b>6,172,596</b>	<b>526,052</b>	<b>561,457</b>

### 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 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 derivatives. The Company owns investments with fixed interest rates. As at August 31, 2018, the Company was holding more than 91% (94% as at August 31, 2017) of its cash and cash equivalents in all-time redeemable term deposits.

All else being equal, a hypothetical 1% interest rate increase or decrease would not have a significant impact on net loss and comprehensive loss for the year ended August 31, 2018 (not significant for the year ended August 31, 2017).

### *Financial Expenses (revenues)*

	Years ended August 31,	
	2018	2017
	\$	\$
Interest and bank charges	68,079	56,323
Interest on long-term debt	75,505	70,379
Interest and imputed interest on the convertible debenture	14,763	69,979
Gain on foreign currency translation	(42,170)	(19,374)
Interest income	(166,281)	(184,500)
	(50,104)	(7,193)

## 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, 2018 and 2017, 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 U.S. 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, 2018, if the Canadian dollar had strengthened 10% against the U.S. dollar with all other variables held constant, net loss and comprehensive loss would have been \$591,000 higher (\$79,000 higher for the year ended August 31, 2017). Conversely, if the Canadian dollar had weakened by 10% against the U.S. dollar with all other variables held constant, net loss and comprehensive loss would have been \$591,000 lower for the year ended August 31, 2018 (\$79,000 lower for the year ended August 31, 2017).

For the year ended August 31, 2018, if the Canadian dollar had strengthened 10% against the Euro with all other variables held constant, net loss and comprehensive loss would have been \$345,000 higher (\$322,000 higher for the year ended August 31, 2017). Conversely, if the Canadian dollar had weakened by 10% against the Euro with all other variables held constant, net loss and comprehensive loss would have been \$345,000 lower for the year ended August 31, 2018 (\$322,000 lower for the year ended August 31, 2017).

For the year ended August 31, 2018, if the Canadian dollar had strengthened or weakened by 10% against the British pound, the impact on net loss and comprehensive loss would not have been significant.

As at August 31, 2018 and August 31, 2017, the risk to which the Company was exposed is established as follows:

	As at August 31, 2018	As at August 31, 2017
	\$	\$
Cash and cash equivalents (US\$599,807; US\$252,720 as at August 31, 2017)	783,048	316,810
Cash and cash equivalents (€643; €28,968 as at August 31, 2017)	975	43,125
Cash and cash equivalents (£11,498; £64 as at August 31, 2017)	19,467	103
Trade and other receivables (US\$1,502,031; US\$1,741,221 as at August 31, 2017)	1,960,902	2,182,794
Trade and other receivables (€145,249; €625,813 as at August 31, 2017)	220,270	931,647
Trade and other receivables (£131,788; £116,377 as at August 31, 2017)	223,130	188,463
Accounts payable and accrued liabilities (US\$526,291; US\$757,978 as at August 31, 2017)	(687,073)	(950,202)
Accounts payable and accrued liabilities (€3,854; €4,408 as at August 31, 2017)	(5,845)	(6,563)
Accounts payable and accrued liabilities (£4,537; £830 as at August 31, 2017)	(7,682)	(1,342)
Convertible debenture (nil; US\$2,198,125 as at August 31, 2017)	-	(2,755,572)
Embedded derivative (nil; US\$875,600 as at August 31, 2017)	-	(1,097,653)
<b>Total</b>	<b>2,507,192</b>	<b>(1,148,390)</b>

## CAPITAL MANAGEMENT

The Company's objective in managing capital, primarily composed of shareholders' equity and long-term debt, is to ensure sufficient liquidity to fund production activities, R&D, 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, 2018, the Company's working capital amounted to \$16,346,939 (\$15,909,209 as at August 31, 2017), including cash and cash equivalents of \$10,886,788 (\$12,570,299 as at August 31, 2017). The accumulated deficit at the same date was \$41,625,541 (\$37,076,057 as at August 31, 2017). 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 after the reporting date of August 31, 2018.

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

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

For the years ended August 31, 2018 and 2017, the Company has not been in default on any of its obligations regarding long-term debt.

## CAPACITY TO PRODUCE RESULTS

As discussed in the section “LIQUIDITY AND CAPITAL RESOURCES”, the Company has the required financial resources for its short-term operations, to fulfill its commitments, to support its growth plan and for the development of its activities. On a mid-term perspective, it is possible that additional financing, through the issuance of shares or debt financing or any other means of financing, might be required.

From the human resources’ perspective, there are no vacancies in the major executive positions within the Company. However, following the retirement of the former Vice-president, Medical Devices, management reorganized duties within the organization and assigned his duties to various employees.

Also, additional technical and production personnel as well as sales and marketing personnel will be required to support the expected growth. Considering the employment market in Canada, the U.S. and Europe, Opsens is confident in its capacity to recruit qualified human resources in a timely fashion.

Regarding the strategy on corporate executive remuneration, it is oriented towards creating long-term value for the shareholders. Several corporate executives hold an important share and share-purchase option position, with rights to be acquired over a four-year period to align shareholders’ interest with corporate executives’ interest. This long-term vision stimulates innovation and the development of recurring revenues.

## NEW ACCOUNTING STANDARDS

There are no IFRS or International Financial Reporting Interpretations Committee (IFRIC) that are in effect for the first time in 2018 that would be expected to have a material impact on the Company.

### **Not Yet Adopted**

#### *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. To date, the Company does not expect the new standard to result in material changes in the consolidated financial statements, aside from disclosure requirements.

#### *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 what 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 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 licences of intellectual property. To date, the Company does not expect the new standard to result in material changes in the consolidated financial statements, aside from disclosure requirements.

### *IFRS 16, Leases*

On January 13, 2016, the IASB released IFRS 16, *Leases*, which replaces 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 Involving 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 lessors remain substantially unchanged. The standard is effective for annual 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.

### *IFRIC 23, Uncertainty over Income Tax Treatments*

On June 7, 2017, the IASB issued IFRIC 23, *Uncertainty over Income Tax Treatments* (the Interpretation). The Interpretation provides guidance on the accounting for current and deferred tax liabilities and assets in circumstances in which there is uncertainty over income tax treatments. The Interpretation is effective for annual periods beginning on or after January 1, 2019. Early application is permitted.

The Interpretation requires an entity to:

- contemplate whether uncertain tax treatments should be considered separately, or together as a group, based on which approach provides better predictions of the resolution;
- reflect an uncertainty in the amount of income tax payable (recoverable) if it is probable that it will pay (or recover) an amount for the uncertainty; and
- measure a tax uncertainty based on the most likely amount or expected value depending on whichever method better predicts the amount payable (recoverable).

The Company has not yet assessed the impact of this new interpretation.

## **DISCLOSURE CONTROLS AND PROCEDURES**

In accordance with the requirements of National Instrument 52-109 – Certification of Disclosure in Issuers’ Annual and Interim Filings (NI 52-109), the Company’s management, including the Chief Executive Officer (CEO) and the Chief Financial Officer (CFO), have evaluated the effectiveness of the Company’s disclosure controls and procedures (DC&P). Based upon the results of the evaluation, the Company’s CEO and CFO have concluded that as at August 31, 2018, the Company’s disclosure controls and procedures to provide reasonable assurance that the information required to be disclosed by the Company in reports it files is recorded, processed, summarized and reported within the appropriate time periods and forms were effective.

## **INTERNAL CONTROL OVER FINANCIAL REPORTING**

Internal control over financial reporting (ICFR) is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with applicable IFRS. Internal control over financial reporting should include those policies and procedures that establish the following:

- maintenance of records in reasonable detail, that accurately and fairly reflect the transactions and disposals of assets;
- reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with applicable IFRS;
- receipts and expenditures are only being made in accordance with authorizations of management or the Board of Directors; and
- reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposal of the Company’s assets that could have a material effect on the financial instruments.

An evaluation was carried out, under the supervision of the CEO and the CFO, of the design and effectiveness of our internal controls over financial reporting. Based on this evaluation, the CEO and the CFO concluded that the internal controls over financial reporting are effective as at August 31, 2018.

## **RISK FACTORS**

The Company operates in an industry that contains various risks and uncertainties. Additional risks and uncertainties not presently known by the Company, or which the Company deems to be currently insignificant, may impede the Company's performance. The materialization of one of the risks could harm the Company's activities and have significant negative impacts on its financial situation and its operating results. In that case, the Company's stock price could be affected.

There are important risks which management believes could impact the Company's business. For information on risks and uncertainties, please also refer to the "Risk Factors" section of our most recent Annual Information Form.

## **OFF-BALANCE SHEET ARRANGEMENTS**

As of August 31, 2018, the Company was not the primary beneficiary in Special Purpose Entities and there were no off-balance sheet arrangements.

## **OTHER INFORMATION**

Updated information on the Company can be found on the SEDAR Web site at <http://www.sedar.com>.

On behalf of management,  
Chief Financial Officer and Corporate Secretary

*(s) Robin Villeneuve, CPA, CA*

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November 27, 2018