Consolidated Financial Statements

Opsens Inc.

Years ended August 31, 2014 and 2013

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Independent auditor's report

To the Shareholders of Opsens Inc.

We have audited the accompanying consolidated financial statements of Opsens Inc., which comprise the consolidated statements of financial position as at August 31, 2014 and 2013, 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, 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, 2014 and 2013, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Deloitte LLP[1]

November 24, 2014

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

Opsens Inc.

Consolidated Statements of Loss and Comprehensive Loss
Years ended August 31, 2014 and 2013

	2014	2013
	$	$
Revenues		
Sales	**6,649,205**	7,526,422
Licensing (note 12)	**138,532**	-
	6,787,737	7,526,422
Cost of sales	**4,398,321**	4,779,824
Gross margin	**2,389,416**	2,746,598
Expenses (revenues) (note 25)		
Administrative	**2,397,909**	2,313,634
Marketing	**1,130,462**	953,716
Research and development	**1,743,407**	1,762,161
Financial expenses (note 26)	**114,410**	99,917
Change in fair value of embedded derivative (note 14)	**101,940**	(17,005)
	5,488,128	5,112,423
Net loss and comprehensive loss	**(3,098,712)**	(2,365,825)
Net loss per share (note 16)		
Basic	**(0.06)**	(0.05)
Diluted	**(0.06)**	(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, 2014 and 2013

	Common shares	Warrants	**Total**	Share capital	Reserve – Stock option plan	Reserve – warrants	Deficit	**Total**
	(number)	(number)	**(number)**	$	$	$	$	**$**
Balance as at August 31, 2013	47,865,983	-	**47,865,983**	15,201,618	1,275,946	2,190,382	(15,274,768)	**3,393,178**
Common shares and warrants issued in connection with a public offering (note 15a)	11,504,520	3,475,426	**14,979,946**	7,409,284	-	126,472	-	**7,535,756**
Fair value of stock options exercised (note 15a)	-	-	**-**	85,392	(85,392)	-	-	**-**
Issued pursuant to the stock option plan (note 15a)	387,500	-	**387,500**	143,505	-	-	-	**143,505**
Stock-based compensation costs (note 15b)	-	-	**-**	-	235,502	-	-	**235,502**
Net loss	-	-	**-**	-	-	-	(3,098,712)	**(3,098,712)**
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**

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

Opsens Inc.

Consolidated Statements of Changes in Equity (continued)
Years ended August 31, 2014 and 2013

	Common shares	Warrants	**Total**	Share capital	Reserve – Stock option plan	Reserve – warrants	Deficit	**Total**
	(number)	(number)	**(number)**	$	$	$	$	**$**
Balance as at August 31, 2012	47,865,983	-	**47,865,983**	15,201,618	1,150,424	2,190,382	(12,908,943)	**5,633,481**
Stock-based compensation costs (note 15b)	-	-	**-**	-	125,522	-	-	**125,522**
Net loss	-	-	**-**	-	-	-	(2,365,825)	**(2,365,825)**
Balance as at August 31, 2013	47,865,983	-	**47,865,983**	15,201,618	1,275,946	2,190,382	(15,274,768)	**3,393,178**

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

Opsens Inc.
Consolidated Statements of Financial Position

	As at August 31, 2014	As at August 31, 2013
	$	$
Assets		
Current		
Cash and cash equivalents (note 17)	**10,621,011**	3,662,259
Trade and other receivables (note 5)	**969,311**	959,857
Tax credits receivable (note 22)	**383,500**	565,086
Work in progress	**-**	55,491
Inventories (note 6)	**2,445,884**	3,028,306
Prepaid expenses	**193,116**	187,672
	14,612,822	8,458,671
Property, plant and equipment (note 7)	**1,042,813**	998,461
Intangible assets (note 8)	**456,411**	394,421
Goodwill (note 9)	**676,574**	676,574
	16,788,620	10,528,127
Liabilities		
Current		
Accounts payable and accrued liabilities (note 11)	**1,412,792**	2,042,063
Warranty provision (note 19)	**133,500**	144,783
Current portion of deferred revenues (note 12)	**2,708,371**	51,188
Current portion of long-term debt (note 13)	**173,548**	177,285
	4,428,211	2,415,319
Deferred revenues (note 12)	**1,138,338**	2,002,000
Long-term debt (note 13)	**653,286**	587,819
Convertible debenture (note 14)	**2,359,556**	2,129,811
	8,579,391	7,134,949
Shareholders' equity		
Share capital (note 15a)	**22,839,799**	15,201,618
Reserve – Stock option plan (note 15b)	**1,426,056**	1,275,946
Reserve – Warrants (note 15c)	**2,316,854**	2,190,382
Deficit	**(18,373,480)**	(15,274,768)
	8,209,229	3,393,178
	16,788,620	10,528,127

Commitments (note 18)
Subsequent events (note 29)

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, 2014 and 2013

	2014	2013
	$	$
Operating activities		
Net loss	**(3,098,712)**	(2,365,825)
Adjustments for:		
Depreciation of property, plant and equipment	**345,561**	287,469
Amortization of intangible assets	**47,780**	31,003
Stock-based compensation costs	**235,502**	125,522
Change in fair value of embedded derivative	**101,940**	(17,005)
Interest expense	**5,254**	90,324
Effect of foreign exchange rate changes on cash and cash equivalents	**(20,578)**	91,116
Unrealized foreign exchange gain	**71,811**	104,105
Government grants on long-term debt	**(122,730)**	-
Changes in non-cash operating working capital items (note 17)	**1,957,568**	1,333,996
	(476,604)	(319,295)
Investing activities		
Acquisition of property, plant and equipment	**(389,913)**	(472,788)
Additions to intangible assets	**(109,770)**	(75,239)
Interest received	**96,426**	-
	(403,257)	(548,027)
Financing activities		
Increase in long-term debt	**316,055**	265,222
Reimbursement of long-term debt	**(177,281)**	(191,025)
Proceeds from the issuance of the convertible debenture	**-**	2,002,000
Proceeds from the issuance of shares and warrants (note 15a)	**8,648,609**	-
Share and warrants issue costs (note 15a)	**(969,348)**	-
Interest paid	**-**	(32,086)
	7,818,035	2,044,111
Effect of foreign exchange rate changes on cash and cash equivalents	**20,578**	(91,116)
Increase in cash and cash equivalents	**6,958,752**	1,085,673
Cash and cash equivalents – Beginning of year	**3,662,259**	2,576,586
Cash and cash equivalents – End of year	**10,621,011**	3,662,259

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

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

1. Incorporation and Description of Business

Opsens Inc. (“Opsens” or the “Company”) is incorporated under the *Business Corporations Act* (Quebec). The Company is focusing on two main growth markets, Fractional Flow Reserve (“FFR”) and oil and gas. The Company is also involved in industrial activities. Opsens develops, manufactures, supplies and installs systems for measuring a number of parameters, including pressure and temperature, using fiber optics sensing technologies. These systems are designed around patented technologies that are effective and durable in extreme conditions. The Company’s head office is located at 125-2014, Cyrille-Duquet, Québec, Québec, Canada, G1N 4N6.

2. 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 Part 1 of the CPA Canada Handbook referred to as 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.

Principles of Consolidation

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

Subsidiaries

Subsidiaries are all entities controlled by the Company. 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.

2. Summary of Significant Accounting Policies (continued)

Revenue Recognition

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

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

Reporting Currency and Foreign Currency Transactions

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

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

Research and Development Costs

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

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 issuing 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 based on their market price on the date of the issuance of the units. The residual difference, if any, between the unit price and the fair value of each common share represents the fair value attributable to each warrant. 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 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 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.

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.

2. Summary of Significant Accounting Policies (continued)

Property, Plant and Equipment (continued)

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

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

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

Intangible Assets

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

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

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

Goodwill

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

Impairment of Non-financial Assets

Goodwill and Indefinite-Life Intangible Assets

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

2. Summary of Significant Accounting Policies (continued)

Impairment of Non-financial Assets (continued)

Non-Financial Assets with Definite Useful Life

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

Recognition of Impairment Charge

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

Leases

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

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

Warranty Provision

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

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

Income Taxes

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

2. Summary of Significant Accounting Policies (continued)

Income Taxes (continued)

Current Income Taxes

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

Deferred Income Taxes

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

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

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

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

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

Loss per Share

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

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

2. Summary of Significant Accounting Policies (continued)

Financial Instruments

a) *Classification*

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

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

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

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

- Financial liabilities at amortized cost: Financial liabilities at amortized cost include accounts payable and accrued liabilities, long-term debt and the debt component of the convertible debenture. They are initially recognized at fair value less transaction costs. Subsequently, they are measured at amortized cost using the effective interest 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 statement of financial position within the convertible debenture. It is classified as non-current based on the contractual terms specific to the instrument. Gains and losses on re-measurement of the embedded derivative are recognized in the consolidated statements of loss.

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.

2. Summary of Significant Accounting Policies (continued)

Financial Instruments (continued)

c) Compound Financial Instrument

The compound financial instrument issued by the Company consists of the convertible debenture that can be converted into common shares of the Company at the option of the holder. Since the debenture is convertible into shares and contains a cash settlement feature, as described in note 14, it is accounted for as a compound instrument with a debt component and a separate embedded derivative representing the conversion option also classified as a liability. Both the debt and embedded derivative components of this compound financial instrument are measured at fair value on initial recognition.

The debt component is subsequently accounted for at amortized cost using the effective interest rate method. The embedded derivative is subsequently measured at fair value at each reporting date, with gains and losses in fair value recognized in the consolidated statements of loss.

3. Critical Accounting Estimates, Assumptions and Judgments

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

Inventories

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

Useful Life of Depreciable Assets

Management reviews the useful life of depreciable assets at each reporting date. As at August 31, 2014, management assesses that the useful lives represent the expected utility of the assets to the Company. The carrying amounts are presented in notes 7 and 8. Actual results, however, may vary due to technical obsolescence or changes in the market, particularly for computer equipment and software.

Impairment of Goodwill

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

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

Government Assistance and Research and Development Tax Credits

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

Warranty Provision

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

Revenue Recognition

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

Stock-based Compensation

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

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

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

4. Changes in Accounting Policies

New and amended standards adopted by the Company

IAS 1, Financial Statements Presentation

In June 2011, the IASB amended IAS 1, *Financial Statements Presentation*, to change the disclosure of items presented in other comprehensive income (“OCI”), including a requirement to separate items presented in OCI into two groups on whether or not they may be recycled to net income in the future.

The amendments were adopted effective September 1st, 2013 in accordance with the transition rules of IAS 1. The Company has concluded that the adoption of IAS 1 did not result in any changes.

IFRS 7 (Revised), Financial Instruments: Disclosures

In December 2011, the IASB and the Financial Accounting Standards Board (“FASB”) issued common disclosure requirements that are intended to help investors and other users to better assess the effect or potential effect of offsetting arrangements on a company's financial position. The new requirements are set out in Disclosures-Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7). The IFRS 7 amendments were adopted retrospectively effective September 1st, 2013. The Company has concluded that the adoption of IFRS 7 did not result in any changes.

4. Changes in Accounting Policies (continued)

New and amended standards adopted by the Company (continued)

IFRS 10, Consolidated Financial Statements

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

IFRS 10 was adopted retrospectively effective September 1st, 2013 in accordance with the transition rules of IFRS 10. The Company has concluded that the adoption of IFRS 10 did not result in any changes.

IFRS 11, Joint Arrangements

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

IFRS 11 and IAS 28 were adopted retrospectively effective September 1st, 2013 in accordance with the transition rules of IFRS 11 and IAS 28. The Company has concluded that the adoption of IFRS 11 and IAS 28 (amended in 2011) did not result in any changes.

IFRS 12, Disclosure of Interests in Other Entities

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

IFRS 12 was adopted retrospectively effective September 1st, 2013 in accordance with the transition rules of IFRS 12. The Company assessed its disclosure of interests in other entities and determined that the adoption of IFRS 12 did not result in additional disclosures.

IFRS 13, Fair Value Measurement

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

IFRS 13 was adopted retrospectively effective September 1st, 2013 in accordance with the transition rules of IFRS 13. Other than additional disclosure which is included in note 26, the adoption of this standard did not require any adjustments to the valuation techniques used by the Company to measure fair value and did not result in any measurement adjustments as at September 1, 2013.

4. Changes in Accounting Policies (continued)

New and amended standards issued but not yet effective

IFRS 9, Financial Instruments

This new standard replaces the requirements in IAS 39, *Financial Instruments: Recognition and Measurement* for classifying and measuring of financial assets and liabilities. IFRS 9 replaces the multiple category and measurement models in IAS 39, *Financial Instruments: Recognition and Measurement*, for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through the statement of income (loss). IFRS 9 also replaces the models for measuring equity instruments. Such instruments are either recognized at fair value through the statement of income (loss) or at fair value through other comprehensive income. Where equity instruments are measured at fair value through other comprehensive income, dividends are recognized in the statement of income (loss) to the extent that they do not clearly represent a return of investment; however, other gains and losses (including impairments) associated with such instruments remain in accumulated comprehensive income indefinitely.

Requirements for financial liabilities were added to IFRS 9 and they largely carried forward existing requirements in IAS 39, except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss are generally recorded in other comprehensive income. IFRS 9 is applicable to the Company starting on September 1, 2018, on a retrospective basis.

The Company will evaluate in the near term the impact of these future changes.

IAS 32, Financial Instruments: Presentation

In December 2011, amendments to IAS 32, *Financial Instruments: Presentation*, were issued to clarify the application of offsetting criteria with regard to offsetting financial assets and financial liabilities. The amendments to IAS 32 will be effective for fiscal years beginning on or after January 1, 2014 with earlier adoption permitted. The Company is currently assessing the impact of adopting these new requirements on the consolidated financial statements.

IAS 36, Impairment of Assets

IAS 36, Impairment of Assets, has been revised to integrate the amendments issued in May 2013. Those amendments make it possible to better reflect a prior decision to require the recoverable amount of impaired assets to be reported along with other disclosures regarding the measurement of the recoverable amount of impaired assets in cases where said recoverable amount is based on fair value less cost of disposal, including the discount rate, when a discounting technique is used to determine the recoverable amount. Those amendments will be effective for fiscal years beginning on or after January 1, 2014 with earlier adoption permitted. The Company is currently assessing the impact of adopting these new requirements on the consolidated financial statements.

IFRIC 21, Levies

IFRIC 21, Levies, which is an interpretation of IAS 37, ‘Provisions, Contingent Liabilities and Contingent Assets’, applies to the accounting for levies imposed by governments. IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (“obligating event”). IFRIC 21 clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. IFRIC 21 is effective for annual periods commencing on or after January 1, 2014. The Company is currently evaluating the extent of the impact of adoption of this standard.

4. Changes in Accounting Policies (continued)

New and amended standards issued but not yet effective (continued)

IFRS 15, Revenue from Contracts with Customers

In May 2014, the IASB released IFRS 15, *Revenue from Contracts with Customers*, which establishes principles for reporting the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. It provides a single model in order to depict the transfer of promised goods or services to customers. The core principle of IFRS 15 is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods and services. IFRS 15 also requires more comprehensive disclosures about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers.

IFRS 15 supersedes IAS 11, Construction Contracts, IAS 18, Revenue, and a number of revenue-related interpretations (IFRIC 13, Customer Loyalty Programmes, IFRIC 15, Agreements for the Construction of Real Estate, IFRIC 18, Transfers of Assets from Customers, and SIC-31, Revenue, Barter Transactions Involving Advertising Service). IFRS 15 is effective for annual periods beginning on or after January 1, 2017, with earlier adoption permitted. The Company has not yet assessed the impact of the adoption of this standard on its consolidated financial statements.

5. Trade and other receivables

	As of August 31, 2014	As of August 31, 2013
	$	$
Trade	**745,835**	836,570
Allowance for doubtful accounts	**(3,032)**	(21,000)
Sales taxes receivable	**204,631**	40,041
Government assistance receivable	**21,877**	104,246
Total	**969,311**	959,857

Allowance for doubtful accounts variation

	Years ended August 31,	
	2014	2013
	$	$
Balance – Beginning of year	**(21,000)**	(21,861)
Unused amounts reversed during the year	**13,954**	861
Amounts written off during the year	**4,014**	-
Balance – End of year	**(3,032)**	(21,000)

6. Inventories

	As of August 31, 2014	As of August 31, 2013
	$	$
Raw materials	**1,245,914**	1,234,566
Finished goods	**1,199,970**	1,793,740
Total	**2,445,884**	3,028,306

For the year ended August 31, 2014, $2,257,128 of inventories were expensed in the consolidated statements of loss and comprehensive loss and presented in cost of sales ($2,507,896 for the year ended August 31, 2013).

7. Property, Plant and Equipment

	Office furniture and equipment	Leased office furniture and equipment	Production equipment	Leased automotive equipment	Research and development equipment, net of income tax credits and government assistance of $55,303	Research and development computer equipment, net of income tax credits of $3,078	Computer equipment	Leasehold improvements	Total
	$	$	$	$	$	$	$	$	$
Cost									
Balance as at August 31, 2013	107,438	8,326	936,281	59,028	973,879	37,564	217,201	128,652	2,468,369
Additions	44,609	-	61,659	-	51,951	6,093	7,575	218,026	389,913
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
Accumulated depreciation									
Balance as at August 31, 2013	65,196	7,904	280,243	50,975	742,248	32,055	188,070	103,217	1,469,908
Depreciation	10,541	422	132,252	7,026	94,714	3,875	15,192	81,539	345,561
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
Net book value									
as at August 31, 2014	76,310	-	585,445	1,027	188,868	7,727	21,514	161,922	1,042,813

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

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, 2013	**200**	**30,000**	**67,645**	**491,720**	**589,565**
Additions	**-**	**-**	**18,078**	**91,692**	**109,770**
Balance as at August 31, 2014	**200**	**30,000**	**85,723**	**583,412**	**699,335**
Accumulated amortization					
Balance as at August 31, 2013	**-**	**-**	**55,223**	**139,921**	**195,144**
Amortization	**-**	**3,174**	**10,630**	**33,976**	**47,780**
Balance as at August 31, 2014	**-**	**3,174**	**65,853**	**173,897**	**242,924**
Net book value as at August 31, 2014	**200**	**26,826**	**19,870**	**409,515**	**456,411**

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

9. Goodwill

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

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

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

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

	As of August 31, 2014	As of August 31, 2013
	%	%
Growth rate	**3**	4
Long-term growth rate	**3**	4
Discount rate	**19.5**	17.9

Based on the discounted cash flow calculations, the recoverable amount of Opsens Solutions Inc.'s CGUs exceeded its carrying value. The recoverable amount of Opsens Solutions Inc.'s CGU amounted to $8,708,000 as at August 31, 2014 ($4,445,000 as at August 31, 2013) and is classified at level 3 in the fair value hierarchy.

If the discount rate had increased or decreased by 1% compared to the assumption taken by the Company, assuming other variables remain constant, the recoverable amount would have been lesser and greater by approximately $647,000 and $729,000, respectively, and no impairment would have been recorded. If the growth rate had increased or decreased by 1% compared to the assumption taken by the Company, assuming other variable remain constant, the recoverable amount would have been greater and lesser by approximately $536,000 and $483,000, respectively, and no impairment would have been recorded.

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, 2014 and 2013.

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

11. Accounts payable and accrued liabilities

	As of August 31, 2014	As of August 31, 2013
	$	$
Suppliers	**448,280**	982,136
Salaries, employee benefits and others	**396,327**	375,681
Other liabilities	**568,185**	684,246
Total	**1,412,792**	2,042,063

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.

12. Deferred Revenues (continued)

a) Distribution and Other Rights Agreement (continued)

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

a. The Company fails to obtain regulatory approval for the OptoWire and the OptoMonitor within five years of the agreement date for all the following geographic regions: Canada, European Union and the United States;

b. The Company abandons the development of the OptoWire and OptoMonitor before obtaining the milestone payment;

c. The Company materially breaches any terms of the agreement or is subject to bankruptcy.

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

The Company received regulatory approval for the OptoWire and the OptoMonitor in Europe on November 19, 2014 (note 29). Consequently, the deferred revenues have been recorded in the short-term liabilities section of the consolidated statements of financial position.

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. US$1,500,000 has been paid on closing, while the balance will be disbursed based on the achievement of certain milestones.

The Company will apply 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 will be 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, 2014, an amount of $138,532 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.

13. Long-term Debt

	As of August 31, 2014	As of August 31, 2013
	$	$
Desjardins Loan, bearing interest at prime rate plus 2.4%, payable in monthly instalments of $10,905 and a final payment of $9,286, maturing in February 2016	**194,667**	325,524
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	**413,590**	249,377
Imputed interest	**(108,942)**	(74,863)
	304,648	174,514
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	**110,989**	140,718
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	**300,000**	148,158
Imputed interest	**(107,259)**	(64,293)
	192,741	83,865
Capital lease, bearing interest at 7.25%, payable in monthly instalments of $1,029, including interest, and a final payment of $1,029, maturing in September 2016	**23,789**	34,011
Capital lease, bearing interest at 9.7%, payable in monthly instalments of $837, including interest, and a final payment of $837, matured in April 2014	**-**	6,472
	826,834	765,104
Current portion	**173,548**	177,285
	653,286	587,819

13. Long-term Debt (continued)

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

	Obligations – Capital lease			Other debts	Debt and principal portion of capital lease
	Total payments	Imputed interest	Principal payments		
	$	$	$	$	$
2015	12,350	1,362	10,988	162,560	173,548
2016	12,350	535	11,815	219,168	230,983
2017	992	6	986	145,784	146,770
2018	-	-	-	108,569	108,569
2019	-	-	-	89,553	89,553

Under the terms and conditions of the agreement on long-term debt with its financial institution, the Company is subject to certain covenants with respect to maintaining minimum financial ratios. As at August 31, 2014 and 2013, these financial ratios were met by the Company.

14. Convertible Debenture

	As of August 31, 2014	As of August 31, 2013
	$	$
Debt component reported as long-term liability (US$2,040,906; US$1,990,316 as at August 31, 2013)	**2,219,077**	2,095,799
Embedded derivative reported as long-term liability (US$129,200; US$32,300 as at August 31, 2013)	**140,479**	34,012
Total	**2,359,556**	2,129,811

On November 19, 2012, the Company issued a US$2,000,000 ($2,002,000) subordinated secured convertible debenture maturing November 19, 2017. The convertible debenture bears interest at a rate of 2.0% per annum, payable at maturity. At the holder's option, the convertible debenture may be converted into common shares of the Company at any time up to the maturity date, at a conversion price representing the market price of the shares. However, the conversion price is subject to a minimum of $0.50 and a maximum of $0.75 per common share (the "conversion price").

The convertible debenture is also convertible at the Company's option at the conversion price if the volume-weighted average closing price per common share for the twenty trading days immediately preceding the fifth trading day before such conversion date is at least $1.20 and if a minimum of 50,000 common shares have traded on the TSX Venture Exchange during each of the twenty trading days taken into account in the calculation of the conversion price.

14. Convertible Debenture (continued)

To secure the repayment of the convertible debenture, a movable hypothec on certain equipment has been given. As at August 31, 2014, the net book value of property, plant and equipment pledged as collateral was $32,800 ($66,000 as at August 31, 2013). This hypothec will rank second to certain long-term loans of the Company.

As noted above, the convertible debenture contains a conversion option that will result in an obligation to deliver a fixed amount of equity in exchange of a variable amount of convertible 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.

Expenses (revenues) associated with the debenture consist of:

	Years ended August 31,	
	2014	2013
	$	$
Interest expense	**44,119**	33,069
Accreted interest	**10,408**	7,639
Change in fair value of embedded derivative	**101,940**	(17,005)
Total	**156,467**	23,703

As at August 31, 2014, the debt component of the convertible debenture has a fair value of $1,505,300 ($1,338,000 as at August 31, 2013).

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 February 18, 2014, the Company completed a public offering for aggregate gross proceeds of $8,505,104. In connection with the offering, the Company issued a total of 5,340,220 units at a price of $0.75 per unit and 6,164,300 common shares at a price of $0.73 per common share. 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 $1.05 until February 18, 2016.

The value of one-half of one common share purchase warrant was established at $0.02, being the difference between the issuing price of $0.75 per unit and of $0.73 per common share. Expenses of the offering include 7% underwriting fees of $595,357 and other professional fees and miscellaneous fees of $373,991 for total fees of $969,348.

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

a) Share capital (continued)

The Company also issued 805,316 broker warrants as additional compensation, each warrant entitling the holder to purchase one common share at a price of $0.73 until February 18, 2016. The total fees of $969,348 and the broker warrants value of $32,213 have been allocated on a prorata basis between share capital and the warrants reserve, $989,015 and $12,546 respectively, based on the ratio established by their respective values as described above.

During the year ended August 31, 2014, following the exercise of stock options, the Company issued 387,500 common shares for a cash consideration of $143,505. The fair value of the stock options exercised was $85,392.

b) Stock options

The Shareholders approved the stock option plan on January 20, 2014 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 830,000 outstanding stock options granted (580,000 stock options granted as at August 31, 2013), which were completely vested at grant date. The exercise price of the options is the closing price of the shares of the Company on the TSX Venture on the trading day immediately preceding the date of grant.

The compensation expense in regards to the stock option plan for the year ended August 31, 2014 is $235,502 ($125,522 for the year ended August 31, 2013).

The fair value of options granted in 2014 was determined using the Black-Scholes option pricing model with the following assumptions:

	Years ended August 31,	
	2014	2013
Risk-free interest rate	Between 1.05% and 1.52%	Between 1.20% and 1.72%
Volatility	Between 110% and 139%	Between 89% and 134%
Dividend yield on shares	Nil	Nil
Expected life	5 years	5 years
Weighted share price	$0.71	$0.24
Weighted fair value per option at the grant date	$0.33	$0.15

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.

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

b) Stock options (continued)

The situation of the outstanding stock option plan and the changes that took place between August 31, 2012 and August 31, 2014 are as follows:

	Number of options	Weighted-average exercise price
		$
Outstanding as at August 31, 2012	3,419,000	0.39
Options granted	1,483,667	0.24
Options forfeited	(715,000)	0.77
Options cancelled	(46,000)	0.22
Outstanding as at August 31, 2013	4,141,667	0.27
Options granted	985,000	0.71
Options exercised	(387,500)	0.37
Options forfeited	(60,000)	0.40
Options cancelled	(506,667)	0.32
Outstanding as at August 31, 2014	4,172,500	0.36
Options exercisable as at August 31, 2014	1,862,813	0.32

The table below provides information on the outstanding stock options as at August 31, 2014:

Exercise price	Number of outstanding stock options	Number of exercisable stock options	Weighted-average remaining contractual life (years)
$			
0.20	747,000	411,000	2.85
0.21	250,000	62,500	3.36
0.23	795,000	447,500	2.21
0.24	80,000	80,000	3.24
0.25	923,500	230,875	3.39
0.35	74,250	65,688	1.84
0.36	57,750	57,750	0.84
0.38	250,000	237,500	1.08
0.44	100,000	100,000	4.13
0.66	200,000	-	4.93
0.75	545,000	100,000	4.66
0.85	140,000	60,000	4.24
1.15	10,000	10,000	0.21
	4,172,500	1,862,813	3.14

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

c) Warrants

The situation of the outstanding warrants and the changes that took place between August 31, 2012 and August 31, 2014 are as follows:

	Number of warrants	Weighted-average exercise price
		$
Outstanding as at August 31, 2012	2,443,049	1.11
Expired	(2,443,049)	1.11
Outstanding as at August 31, 2013	-	-
Issued with units (note 15a)	2,670,110	1.05
Issued to brokers (note 15a)	805,316	0.73
Outstanding as at August 31, 2014	3,475,426	0.98
Warrants exercisable as at August 31, 2014	3,475,426	0.98

16. Net Loss per Share

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

	Years ended August 31,	
	2014	2013
	$	$
Net loss attributable to shareholders		
Basic and diluted	**(3,098,712)**	(2,365,825)
Number of shares		
Basic and diluted weighted-average number of shares outstanding	**54,177,457**	47,865,983
Amount per share		
Net loss per share		
Basic	**(0.06)**	(0.05)
Diluted	**(0.06)**	(0.05)

16. Net Loss per Share (continued)

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

	Years ended August 31,	
	2014	**2013**
Stock options	**695,000**	1,025,000
Warrants	**3,475,426**	-

For the years ended August 31, 2014 and 2013, the diluted amount per share was the same amount as the basic amount per share, since the dilutive effect of the 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.

17. Additional Information on the Statements of Cash Flows

	Years ended August 31,	
	2014	2013
	$	$
Changes in non-cash operating working capital items		
Trade and other receivables	**(9,454)**	(58,546)
Tax credits receivable	**181,586**	(265,691)
Work in progress	**55,491**	(55,491)
Inventories	**582,422**	(1,049,233)
Prepaid expenses	**(5,444)**	(48,899)
Accounts payable and accrued liabilities	**(629,271)**	698,158
Warranty provision	**(11,283)**	60,510
Deferred revenues	**1,793,521**	2,053,188
	1,957,568	1,333,996

	As of August 31, 2014	As of August 31, 2013
	$	$
Cash and cash equivalents		
Cash	**785,907**	687,881
Short-term investments	**9,835,104**	2,974,378
	10,621,011	3,662,259

18. Commitments

Leases

The Company leases offices in Québec under operating leases expiring on April 30, 2016. These agreements are renewable for an additional five-year period. Future rent, without considering the escalation clause, will amount to $461,700.

The Company leases offices in Alberta under an operating lease expiring on April 30, 2015. This agreement is renewable for an additional five-year period. Future rent, without considering the escalation clause, will amount to $88,200.

Opsens Solutions Inc. rents a vehicle under an operating lease expiring in July 2015. Future rent payments will amount to $9,200.

Future payments for the leases and other commitments, totalling $559,100, required in each of the forthcoming years are as follows:

	$
2015	370,900
2016	188,200

In 2014, the offices lease expense is $337,696 ($294,626 in 2013).

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, 2014, the Company reversed an amount of $2,783 (provisions of $158,470 recognized for the year ended August 31, 2013) for guarantees. A provision of $133,500 is recorded for guarantees as of August 31, 2014 ($144,783 as at August 31, 2013). The following table summarizes changes in warranty provision:

	Years ended August 31,	
	2014	2013
	$	$
Balance – Beginning of year	**144,783**	84,273
Provisions recognized (reversed)	**(2,783)**	158,470
Amounts used during the year	**(8,500)**	(97,960)
Balance – End of year	**133,500**	144,783

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 $300,000, non-interest bearing, to cover expenses related to the development of its OptoWire product for the Fractional Flow Reserve market. This contribution is paid out based on the project's percentage of completion at the rate of 40% of eligible expenses since February 1, 2013. During the year ended August 31, 2014, the Company recognized for this refundable contribution an amount of $56,112 ($57,554 for the year ended August 31, 2013) against research and development expenses.

Under an agreement reached with the National Research Council Canada with respect to the Industrial Research Assistance Program (IRAP), the Company may receive a non-refundable contribution for a maximum amount of $349,500 to cover some of its incurred costs to develop a new product. During the year ended August 31, 2014, the Company recorded contributions totalling $140,094 ($183,486 for the year ended August 31, 2013) which were accounted for against research and development expenses.

Under an agreement reached with the Ministère des Finances et de l'Économie, the Company was granted a refundable contribution of $413,590, non-interest bearing, to cover some of its incurred costs to carry out development of the OptoWire for Fractional Flow Reserve. For the year ended August 31, 2014, the Company recorded for this refundable contribution an amount of $59,437 ($78,717 for the year ended August 31, 2013) against research and development expenses.

21. Income Taxes

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

	Years ended August 31,	
	2014	2013
	$	$
Income tax payable using the combined federal and provincial statutory tax rate (26.9%; 26.9% in 2013)	**(833,553)**	(637,820)
Non-deductible expenses	**657,611**	444,611
Deductible financing fees	**(76,610)**	(28,995)
Taxable income	**221,501**	269,269
Non-taxable income tax credits	**(154,519)**	(86,953)
Losses carried forward	**185,570**	39,888
Income tax using effective income tax rate	**-**	-

21. Income Taxes (continued)

As at August 31, 2014, the Company has tax losses of approximately $9,098,400 for federal purposes and $8,820,400 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	724,000	737,000
	9,098,400	8,820,400

The Company also has undeducted research and development expenses of $6,035,000 ($4,825,000 as at August 31, 2013) for federal purposes and $8,699,000 ($7,266,000 as at August 31, 2013) 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 $6,523,000 ($5,488,000 as at August 31, 2013) were entirely provisioned due to the uncertainty concerning the Company's ability to generate taxable income. In addition, deferred tax liabilities of approximately $364,700 ($391,400 as at August 31, 2013) 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,	
	2014	2013
	$	$
Federal	**1,690,790**	1,122,674
Provincial	**1,690,790**	1,122,674

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

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

	Years ended August 31,	
	2014	2013
	$	$
Federal	**-**	-
Provincial	**383,500**	265,691
	383,500	265,691

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, 2014 and 2013 have not yet been reviewed by the taxation authorities, and the amounts granted could differ from those that have been recorded.

Over the years, the Company qualified for federal income tax credits for scientific research and experimental development, which were non-refundable and could be used against Part I Company tax. The accumulated credits for the year ended August 31, 2014 are about $1,970,255 ($1,607,749 as at August 31, 2013) and expire over a period of 10 to 20 years beginning in 2014.

23. Segmented Information

Sector's Information

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

23. Segmented Information (continued)

Sector's Information

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,					
			2014			2013
	Opsens Inc.	**Opsens Solutions Inc.**	**Total**	Opsens Inc.	Opsens Solutions Inc.	Total
	$	**$**	**$**	$	$	$
External sales	**2,290,654**	**4,497,083**	**6,787,737**	1,773,715	5,752,707	7,526,422
Internal sales	**486,447**	**-**	**486,447**	1,369,950	-	1,369,950
Depreciation of property, plant and equipment	**212,645**	**132,916**	**345,561**	168,953	118,516	287,469
Amortization of intangible assets	**38,447**	**9,333**	**47,780**	25,294	5,709	31,003
Financial expenses (revenues)	**(211,342)**	**325,752**	**114,410**	(193,571)	293,488	99,917
Net income (net loss)	**(2,478,047)**	**(620,665)**	**(3,098,712)**	(2,440,218)	74,393	(2,365,825)
Acquisition of property, plant and equipment	**359,243**	**30,670**	**389,913**	159,202	313,586	472,788
Additions to intangible assets	**107,499**	**2,271**	**109,770**	74,639	600	75,239
Segment assets	**13,265,042**	**3,523,578**	**16,788,620**	6,150,782	4,377,345	10,528,127
Segment liabilities	**7,756,045**	**823,346**	**8,579,391**	6,042,685	1,092,264	7,134,949

Geographic sector's information

	Years ended August 31,	
	2014	2013
	$	$
Revenue per geographic sector		
Canada	**4,725,688**	5,825,550
United States	**833,802**	571,160
Other*	**1,228,247**	1,129,712
	6,787,737	7,526,422

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

23. Segmented Information (continued)

Geographic sector's information

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, 2014, revenues from three clients represented individually more than 10% of the total revenues of the Company, i.e. approximately 33% (Opsens Solutions Inc.'s reportable segment), 15% (Opsens Solutions Inc.'s reportable segment) and 11% (Opsens Solutions Inc.'s reportable segment).

During the year ended August 31, 2013, revenues from three clients represented individually more than 10% of the total revenues of the Company, i.e. approximately 49% (Opsens Solutions Inc.'s reportable segment), 12% (Opsens Solutions Inc.'s reportable segment) and 10% (Opsens Solutions Inc.'s reportable segment).

24. Related-party Transactions

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

	Years ended August 31,	
	2014	2013
	$	$
Professional fees paid to a company controlled by a director	**10,035**	34,216
	10,035	34,216

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

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

	Years ended August 31,	
	2014	2013
	$	$
Short-term salaries and other benefits	**1,023,600**	885,879
Option-based awards	**55,250**	154,348
	1,078,850	1,040,227

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

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

	Years ended August 31,	
Expenses (revenues) included in functions	**2014**	2013
	$	$
Salaries & Other Benefits	**4,831,238**	4,816,921
Cost of sales		
Administrative		
Marketing		
Research and development		
Depreciation of Property, Plant and Equipment	**345,561**	287,469
Cost of sales		
Administrative		
Research and development		
Amortization of Intangible Assets	**47,780**	31,003
Administrative		
Research and development		
Government Assistance	**(255,643)**	(241,040)
Research and development		
Income tax credits for research and development	**(613,431)**	(265,691)
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.

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 approximates $1,505,300 as at August 31, 2014 ($1,338,000 as at August 31, 2013) and is classified at level 2 in the fair value hierarchy.

26. Financial Instruments (continued)

Fair Value (suite)

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, 2014			
	Total	**Level 1**	**Level 2**	**Level 3**
	$	**$**	**$**	**$**
Financial assets (liabilities) measured at fair value:				
Convertible debenture – embedded derivative	**(140,479)**	**-**	**(140,479)**	**-**

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

As explained in note 14, the convertible debentures 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 these embedded derivatives is the implied volatility. The fair value of the embedded derivative included in the convertible debenture was determined using the Black-Scholes pricing model using an implied volatility of 111% (122% in 2013), a discount rate of 1.35% (1.95% in 2013) and an expected life of 3.2 years (4.2 years in 2013). A 1% change in the implied volatility factor would have changed the fair value of the embedded derivative by $1,740.

26. Financial Instruments (continued)

Risk Management

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

Credit Risk

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

The credit risk associated with trade and other receivables is generally considered normal since the majority of its customers are well-established and financed oil and gas companies. Generally, the Company does not require collateral or other security from customers for trade accounts receivable; however, credit is extended following an evaluation of creditworthiness. In addition, the Company performs ongoing credit reviews of all of its customers and establishes an allowance for doubtful accounts when accounts are determined to be at risks and/or uncollectible. Two major customers represented 50% of the Company's total accounts receivable as at August 31, 2014 (64% as at August 31, 2013).

As at August 31, 2014, 6% (13% as at August 31, 2013) of the accounts receivable were of more than 90 days whereas 60% (43% as at August 31, 2013) 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, 2014, the allowance for doubtful accounts was established at $3,032 ($21,000 as at August 31, 2013).

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

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.

26. Financial Instruments (continued)

Liquidity Risk (continued)

The following are the contractual maturities of the financial liabilities (principal and interest, assuming current interest rates) as at August 31, 2014 and August 31, 2013:

August 31, 2014	**Carrying amount**	**Cash flows**	**0 to 12 months**	**12 to 24 months**	**After 24 months**
	$	**$**	**$**	**$**	**$**
Accounts payable and accrued liabilities	**1,346,217**	**1,346,217**	**1,346,217**	**-**	**-**
Long-term debt	**826,834**	**1,057,301**	**181,137**	**256,806**	**619,358**
Convertible debenture	**2,359,556**	**2,392,060**	**-**	**-**	**2,392,060**
Total	**4,532,607**	**4,795,578**	**1,527,354**	**256,806**	**3,011,418**

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

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 of August 31, 2014, the Company was holding more than 92% (81% as at August 31, 2013) 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 $1,717 on the net loss for the year ended August 31, 2014 (unfavourable impact of $3,697 on the net loss for the year ended August 31, 2013). A hypothetical 1% interest rate decrease would have had a favourable impact of $1,780 on the net loss for the year ended August 31, 2014 (favourable impact of $3,721 for the year ended August 31, 2013).

26. Financial Instruments (continued)

Financial expenses (revenues)

	Years ended August 31,	
	2014	2013
	$	$
Interest and bank charges	**58,183**	52,999
Interest on long-term debt	**34,906**	39,307
Interest and accreted interest on convertible debenture (note 14)	**54,527**	40,708
Loss on foreign currency translation	**84,941**	26,638
Interest income	**(118,147)**	(59,735)
	114,410	99,917

Concentration Risk

Concentration risk exists when investments are made with multiple entities that share similar characteristics or when a large investment is made with a single entity. As of August 31, 2014 and 2013, 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. Therefore, it is exposed to foreign currency fluctuations. The Company does not actively manage this risk.

Foreign Currency Sensitivity Analysis

For the years ended August 31, 2014 and 2013, if the Canadian dollar had strengthened 10% against the US dollar with all other variables held constant, net loss would have been $4,700 higher for the year ended August 31, 2014 (net loss would have been $154,000 lower for the year ended August 31, 2013). Conversely, if the Canadian dollar had weakened 10% against the US dollar with all other variables held constant, net loss would have been $4,700 lower for the year ended August 31, 2014 (net loss would have been $154,000 higher for the year ended August 31, 2013).

26. Financial Instruments (continued)

Foreign Currency Sensitivity Analysis (continued)

As at August 31, 2014 and August 31, 2013, the risk to which the Company was exposed is established as follows:

	As of August 31, 2014	As of August 31, 2013
	$	$
Cash and cash equivalents (US$2,362,635; US$1,620,546 as at August 31, 2013)	**2,568,893**	1,706,435
Trade and other receivables (US$286,422; US$186,033 as at August 31, 2013)	**311,427**	195,892
Accounts payable and accrued liabilities (US$179,867; US$296,434 as at August 31, 2013)	**(195,570)**	(356,149)
Convertible debenture (US$2,040,906; US$1,990,316 as at August 31, 2013))	**(2,219,077)**	(2,095,799)
Embedded derivative (US$129,200; US$32,300 a at August 31, 2013)	**(140,479)**	(34,012)
Total	**325,194**	(583,633)

27. Capital Management

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

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

As at August 31, 2014, the Company's working capital amounted to $10,184,611 ($6,043,352 as at August 31, 2013) including cash and cash equivalents of $10,621,011 ($3,662,259 as at August 31, 2013). The accumulated deficit at the same date was $18,373,480 ($15,274,768 as at August 31, 2013). Based on the Company's assessment, which took into account current cash levels, as well as its strategic plan and corresponding budgets and forecasts, the Company believes that it has sufficient liquidity and financial resources to fund planned expenditures and other working capital needs for at least, but not limited to, the 12-month period following the statement of financial position date of August 31, 2014.

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, 2014 and 2013, 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 24, 2014.

29. Subsequent Events

Shonin approval

On October 2, 2014, the Company announced it has received Shonin approval from the Japanese Ministry of Health, Labor and Welfare to market the OptoWire and the OptoMonitor, Opsens' products that measure FFR in patients with coronary artery disease.

Obtaining Shonin approval was the final condition for the release of a milestone payment of US$1,000,000 ($1,116,300). This amount will be recorded in the statement of loss and comprehensive loss.

CE mark regulatory approval

On November 19, 2014, the Company announced it has received CE Mark approval to market in Europe its FFR products. The CE mark approval, in addition to the Shonin approval obtained on October 2, 2014, allow the Company to record in the statement of loss under the caption "Distribution rights" the $2,002,000 (US$2,000,000) upfront license fee it received upon the signature of the agreement. The upfront license fee was previously accounted for as deferred revenues since the Company had to reimburse the upfront licence upon the occurrence of events described in note 12 to these consolidated financial statements.