

## **MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE THREE-MONTH PERIOD AND SIX-MONTH PERIOD ENDED FEBRUARY 28, 2021**

The following comments are intended to provide a review and analysis of the results of operations, financial condition, and cash flows of OpSens Inc. for the three-month period ended February 28, 2021, in comparison with the corresponding period ended February 29, 2020. In this Management's Discussion and Analysis ("MD&A"), "OpSens," "the Company," "we," "us" and "our" mean OpSens Inc. and its subsidiaries. This MD&A should be read and interpreted in conjunction with the information contained in our annual consolidated financial statements for the years ended August 31, 2020 and 2019, which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. This document was prepared on April 13, 2021. All amounts are in Canadian dollars unless otherwise indicated.

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

Information contained in forward-looking statements is based upon certain material assumptions that were applied in drawing a conclusion or making a forecast or projection, including management's perceptions of historical trends, current conditions and expected future developments, as well as other considerations that are believed to be appropriate in the circumstances. The Company considers these assumptions to be reasonable based on all currently available information, but cautions the reader that these assumptions regarding future events, many of which are beyond its control, may ultimately prove to be incorrect since they are subject to risks and uncertainties that affect the Company and its business. The forward-looking information set forth therein reflects the Company's expectations as of April 13, 2021, and is subject to change after this date. The Company disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, other than as required by law.

### **COVID-19**

The global economy has significantly changed during the past year. The spread of COVID-19 virus, declared on March 11, 2020, as a pandemic by the World Health Organization (WHO), has led many governments to adopt exceptional measures to slow the advancement of COVID-19. These events cause significant uncertainties that could damage the Company's activities. At the current time, it is not possible to reliably estimate the duration and impact that these events may have on the Company's future financial results because of the uncertainties about future developments. Thus far, the Company has had minimal manufacturing, supply chain, or distribution disruptions and has continued to fulfill orders to customers. However, the Company has had limited access to the cath labs and has adjusted its sales force consequently.

## OVERVIEW

The Company's primary focus is physiological measurement such as Fractional Flow Reserve ("FFR") and the diastolic pressure algorithm ("dPR") in the coronary artery stenosis market. Physiological measurement could be used in other areas of cardiology. OpSens offers an optical guidewire (OptoWire) to measure pressure to diagnose and treat to improve clinical outcomes in patients with coronary heart disease. OpSens also operates in the Industrial segment through its wholly-owned subsidiary OpSens Solutions Inc. ("Solutions"). Solutions develops, manufactures and installs innovative measurement solutions using fibre optic sensors for critical and demanding industrial applications.

OpSens owns 21 patents and has three pending patents to protect its technologies in the Medical and Industrial sectors.

## SECTORS OF ACTIVITY

**In the Medical sector,** OpSens markets OptoWire and OptoMonitor to diagnose and treat coronary artery disease. OptoWire provides cardiologists with an optimized pressure guidewire to navigate coronary arteries and cross blockages with ease while measuring intracoronary blood pressure. This procedure is called FFR measurement, also referred to as physiological measurement.

OpSens has obtained the required regulatory approvals for the OptoWire and OptoMonitor in the world's largest markets, namely the United States, Europe (including the Middle East), Japan and Canada. Furthermore, the need to diagnose coronary disease without hyperemia induced by the injection of heart-stimulating drugs has emerged. OpSens has developed its proprietary diastolic pressure ratio to meet this need. Non-Hyperemic Pressure Resting indices ("NHPR"), such as OpSens' dPR, are beneficial for some patients as they reduce procedure time, costs and discomfort. This product is available through the OptoMonitor and works in combination with the OptoWire. OpSens' dPR is marketed in Japan, the United States, Canada and Europe.

OpSens has established a direct sales force in the United States and Canada and utilizes distributors in Europe (including the Middle East) and Japan.

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

**In the Industrial sector,** OpSens' expertise, technology and products meet the needs of multiple markets, including aeronautic, geotechnical, infrastructures, nuclear, mining, military, and others. OpSens' portfolio of products and technologies can be adapted to measure various parameters under the most difficult conditions and bring significant benefits in terms of optimizing production and reducing risks to the environment and health.

As an example, fibre optic sensors perform well in the presence of electromagnetic fields, radio frequencies, microwaves, high-intensity magnetic waves (MR) or high temperatures, elements that typically disrupt results with conventional sensors. Customers' needs are wide-ranging and require measuring various parameters like pressure, temperature, strain, and others.

The Company focuses on business opportunities with the highest returns and has developed new products to fulfill their specific needs. As an example, the new OPP-GD fibre optic differential pressure sensor and the new OEC fibre optic extensometer sensors have grabbed the attention of many industries such as aeronautic and energy.

## MARKET OVERVIEW

**In the Medical sector,** coronary physiology measurement represents a significant and growing opportunity for the Company. In recent years, the prevalence of coronary heart disease has increased rapidly. In the AHA report, "Heart Disease and Stroke Statistics – 2017", which is based on health data compiled in more than 190 countries, coronary heart disease is the leading cause of death worldwide with 17.3 million deaths per year. This number is expected to exceed 23.6 million deaths in 2030. Coronary heart disease is one of the leading causes of death in the developed world, and the cost of managing and treating these diseases is a significant burden to society. The benefits of FFR were demonstrated in various clinical studies such as FAME I and FAME II published in 2009 and 2012, respectively in the

New England Journal of Medicine. The FAME I study showed that the FFR-guided treatment rather than the standard angiography alone led to a reduction in mortality, myocardial infarction, readmission for percutaneous coronary intervention and coronary bypass by about 30% after a year. Several reports have also shown inaccurate diagnoses that can lead to misuse or inappropriate use of “stents.”

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

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

In April 2018, the Ministry of Health, Labour and Welfare (“MHLW”) in Japan introduced a new regulation requiring the physiology evaluation of all coronary artery stenosis prior to its treatment, specifically mentioning FFR as an evaluation method. The MHLW revised medical fees and established a requirement to assess functional ischemia (blockage of arteries) prior to treatment.

These developments contribute to the steady growth of the coronary artery stenosis measurement (FFR and dPR) market. According to management and industry source estimates<sup>(1)</sup>, this market exceeds US\$500 million worldwide in 2020 and is expected to exceed US\$1 billion annually in the medium term (2025).

**In the Industrial sector**, under this reportable segment, the Corporation’s technology, expertise, and products can serve several markets including aeronautic, geotechnical, infrastructures, nuclear, mining, military, and others. The Company focuses mainly on the following markets:

- Nuclear market: the opportunities in this market are related principally to new nuclear technologies to produce energy. The new and recently patented fibre optic differential pressure sensor is the main solution for that market;
- Aeronautic market: the opportunities in this market are principally related to fuel monitoring systems for aircraft. New industrial version of the absolute pressure sensor and the recent addition of a differential pressure sensor are the main products for these applications; and
- Traditional Niche Applications Market: they include niche applications in which the Company is currently engaged, such as electro-pyrotechnic devices.

## COMPETITION

**In the Medical sector**, the market for physiological measurement has five competitors and is currently dominated by two major players who commercialize standard electrical technology. Competition is based on technological advantages, brand recognition, customer service, marketing support and price.

**In the Industrial sector**, there is a significant number of competitors. Competition is based primarily on technological advantages. Our direct competition is made up of both opened and closed-ended companies with a global presence.

## CORPORATE GROWTH STRATEGY

OpSens’ growth strategy is to become a key player in the Medical sector focusing on the physiological measurement, where its products and technologies offer major advantages over the competition. The Company also aims to capitalize on its technologies and products in the industrial markets. To this end, the Company implements its corporate strategy based on its various segments of operations.

(1) OpSens FFR Market Calculations based on GRAND VIEW RESEARCH (Feb. 2019).

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

- Increase of its market shares in the fast-growing physiological measurement market.

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

- Direct Sales Force: OpSens has established a sales team, hiring a seasoned staff with solid expertise in coronary artery stenosis. This sales force has been implemented to increase OpSens' market and commercialization penetration in the United States and Canada. In the context of COVID-19, the Company has adjusted its methods and the number of representatives using remote approaches rather than in-person visits to catheterization laboratories. In the short term, this approach better aligns to customers wishing to limit the number of in-person visitors to hospitals. OpSens also targets agreements with group purchasing organizations to accelerate penetration, particularly in the United States. OpSens has successfully signed agreements with group purchasing organizations with more expected to come; and
- Distributor Sales Force: OpSens has signed distribution agreements in Europe, Asia, and the Middle East. These agreements allow OpSens to focus on market penetration with leading business partners in their respective markets.

Interventional cardiologists have started focusing on new measurements performed with the heart at rest. These measurements require greater accuracy and constant and repeated guidewire performance over time. With its second-generation optical sensor, the Company is convinced that there will be a growing interest in the OptoWire's recognized features which include:

- A low-drift measurement technology for improved reliability, essential to cardiologists' decision-making in the diagnosis and treatment of coronary artery stenosis; and
  - Better connectivity as OptoWire is insensitive to blood contamination. It can be easily reconnected without compromising measurement accuracy.
- Clinical data

Major clinical studies previously suspended due to the COVID-19 pandemic have recently resumed.

- Innovation

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

As an example of innovation, the Company is developing a pressure guidewire designed to assist cardiologists during transaortic valve replacement procedures (TAVR). This innovation is a structural heart pressure guidewire that measures and displays critical hemodynamics information in real time during valve replacement procedures.

Also, OpSens received regulatory approval for the commercialization of the newest version of its coronary pressure guidewire, OptoWire III, for the United States, Japan, EMEA, and Canada thus far.

OpSens offers a broad selection of miniature optical sensors to measure pressure and temperature that can be used in a wide range of applications and that can be integrated into other medical devices. The Company aims to partner with key players in the industry. The partnership with Abiomed Inc. ("Abiomed"), for the use of its miniature sensors and technology, is an example of the type of partnership the Company targets.

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

- **Target Market:** Solutions' target markets are aeronautic, geotechnical, infrastructures, nuclear, mining, military and others. These are markets where OpSens' products offer unique advantages over its competitors; and
- **Innovation:** Solutions continually invest in innovations for its products, so they can offer unique advantages over competitors. For example, the Company's optical strain and pressure sensors have received the attention of major players in the aeronautic industry because they require no shielding or grounding and because of their ease of deployment.

#### NON-IFRS FINANCIAL MEASURES – EBITDAO

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

#### RECONCILIATION OF EBITDAO TO NET INCOME (LOSS)

(In thousands of Canadian dollars)	Three-month period ended February 28, 2021	Three-month period ended February 29, 2020	Six-month period ended February 28, 2021	Six-month period ended February 29, 2020
	\$	\$	\$	\$
Net income (loss)	41	(1,382)	635	(3,253)
Financial expenses	293	124	509	285
Depreciation of property, plant and equipment and right-of-use assets	383	386	761	766
Amortization of intangible assets	58	26	110	48
Stock-based compensation costs	93	143	168	263
<b>EBITDAO</b>	<b>868</b>	<b>(703)</b>	<b>2,183</b>	<b>(1,891)</b>

The positive variance of EBITDAO for the three-month period ended February 28, 2021, is mainly explained by the fact that we increased our sales in all segments, we significantly reduced our sales and marketing expenses following the size adjustment of our direct sales force in the United States due to COVID-19 and by a grant related to the Canada Emergency Wage Subsidy ("CEWS") of \$110,000.

The positive variance of EBITDAO for the six-month period ended February 28, 2021, is mainly explained by the fact that we increased our sales in all segments, we significantly reduced our sales and marketing expenses following the size adjustment of your direct sales force in the United States and by the CEWS of \$600,000.

**SELECTED CONSOLIDATED FINANCIAL DATA**

(In thousands of Canadian dollars, except for information per share)	<b>Three-month period ended February 28, 2021</b>	<b>Three-month period ended February 29, 2020</b>	<b>Six-month period ended February 28, 2021</b>	<b>Six-month period ended February 29, 2020</b>
	\$	\$	\$	\$
<b>Revenues</b>				
Sales				
Medical	7,831	7,350	15,150	13,812
Industrial	979	908	1,979	1,435
	8,810	8,258	17,129	15,247
Other	19	-	37	-
	8,829	8,258	17,166	15,247
Cost of sales	4,260	4,009	7,925	7,088
<b>Gross margin</b>	4,569	4,249	9,241	8,159
Gross margin percentage	52%	51%	54%	54%
<b>Operating expenses</b>				
Administrative	1,488	1,249	2,957	2,723
Sales and marketing	1,554	2,835	3,142	5,685
Research and development	1,284	1,423	2,580	2,719
	4,326	5,507	8,679	11,127
Other income	(110)	-	(600)	-
Financial expenses	293	124	508	285
	60	(1,382)	654	(3,253)
Income (loss) before income taxes				
Income taxes	19	-	19	-
	41	(1,382)	635	(3,253)
<b>Net income (loss) and comprehensive loss</b>				
<b>Basic and diluted net income (loss) per share</b>	0.00	(0.02)	0.01	(0.04)

**Revenues**

The Company reported revenues of \$8,829,000 for the three-month period ended February 28, 2021, compared to revenues of \$8,258,000 for the corresponding period in 2020, an increase of \$571,000 or 7%.

Sales in the Medical segment totalled \$7,831,000 for the three-month period ended February 28, 2021, compared to sales of \$7,350,000 for the same period in 2020. The increase in Medical segment revenues is explained by higher sales in the coronary artery stenosis measurement line of business (FFR and dPR). Coronary artery stenosis measurement sales increased by 17% or \$898,000 compared with the same period in 2020. This increase is partly offset by lower original equipment manufacturer (“OEM”) medical sales of \$418,000 compared to the same period last year.

The Company also reported other revenues of \$19,000 related to a new development project with a OEM partner.

Sales in the Industrial segment totalled \$979,000 for the three-month period ended February 28, 2021, compared to sales of \$908,000 for the same period in 2020. The increase is explained by a higher volume of orders compared to the same period last year despite COVID-19.

For the three-month period ended February 28, 2021 and 2020, pricing fluctuations did not have a significant impact on revenues.

The Company's revenues are generated in U.S. dollars, Canadian dollars, euros, and British pounds; fluctuations in the exchange rate affect revenues and net income (loss). For the three-month period ended February 28, 2021, revenues were negatively affected by \$226,000 compared to the same period last year (sales were positively impacted by \$3,000 for the three-month period ended February 29, 2020).

As at February 28, 2021, OpSens' total backlog of orders amounted to \$5,733,000 (\$12,402,000 as at February 29, 2020).

### **Gross Margin**

Information and analysis in this section do not take into consideration other revenues (\$19,000 for the three-month period ended February 28, 2021, and nil for the three-month period ended February 29, 2020, respectively).

Gross margin was \$4,550,000 for the three-month period ended February 28, 2021, compared to \$4,249,000 for the same period last year. The gross margin percentage slightly increased at 52% for the three-month period ended February 28, 2021 compared to 51% for the three-month period ended February 29, 2020.

### **Administrative Expenses**

Administrative expenses were at \$1,488,000 and \$1,249,000, respectively, for the three-month periods ended February 28, 2021 and February 29, 2020. The increase is largely explained by higher headcount and professional fees.

### **Sales and Marketing Expenses**

Sales and marketing expenses totalled \$1,554,000 for the three-month period ended February 28, 2021, a decrease of \$1,281,000 over the \$2,835,000 reported during the same period in 2020. The decrease is largely explained by lower headcount, commissions, trade shows and travelling expenses when compared to last year related to the adjustment of the size of our direct sales force in the United States due to COVID-19.

### **Research and Development Expenses**

Research and development expenses totalled \$1,284,000 for the three-month period ended February 28, 2021, a decrease of \$139,000 over the \$1,423,000 reported during the same period in 2020. The decrease is largely explained by lower subcontractor expenses and a grant from Industrial Research Assistance Program (IRAP) received for the development of our new pressure guidewire for the structural heart.

### **Other Income**

Other income was \$110,000 and nil, respectively, for the three-month period ended February 28, 2021 and the three-month period ended February 29, 2020. The increase is explained by the recognition of a non-refundable contribution under the CEWS program for an amount of \$110,000.

### **Financial Expenses**

Financial expenses totalled \$293,000 for the three-month period ended February 28, 2021, compared to \$124,000 for the same period in 2020. The increase in financial expenses is mainly explained by a less favorable exchange rate of \$163,000 and by lower interest income of \$46,000. This is partly offset by lower interest expenses of \$35,000.

### **Net Income (Loss)**

As a result of the foregoing, net income for the three-month period ended February 28, 2021, was \$41,000 compared to net loss of \$1,382,000 for the same period in 2020.

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION DATA**

(In thousands of Canadian dollars)	As at February 28, 2021	As at August 31, 2020
	\$	\$
Current assets	51,249	22,543
Total assets	60,660	31,908
Current liabilities	7,092	5,655
Long-term liabilities	10,421	10,906
Shareholders' equity	43,147	15,347

Total assets as at February 28, 2021, were \$60,660,000 compared to \$31,908,000 as at August 31, 2020. The increase is mainly related to higher cash and cash equivalents of \$28,429,000 following the completion of an equity financing on February 25, 2021.

Current liabilities totalled \$7,092,000 as at February 28, 2021, compared to \$5,655,000 as at August 31, 2020. The increase is mainly explained by a higher current portion of long-term debt of \$1,396,000.

Long-term liabilities totalled \$10,421,000 as at February 28, 2021, compared to \$10,906,000 as at August 31, 2020, a decrease of \$485,000. The decrease is mainly explained by a lower long-term debt of \$726,000 partly offset by higher lease liabilities of \$241,000.



## SUMMARY OF CONSOLIDATED QUARTERLY RESULTS

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

(Unaudited, in thousands of Canadian dollars, except for information per share)	Three-month period ended February 28, 2021	Three-month period ended November 30, 2020	Three-month period ended August 31, 2020	Three-month period ended May 31, 2020
	\$	\$	\$	\$
Revenues	8,829	8,336	7,576	6,630
Net income for the period	41	594	557	52
Basic and diluted net income per share	0.00	0.01	0.01	0.00

(Unaudited, in thousands of Canadian dollars, except for information per share)	Three-month period ended February 29, 2020	Three-month period ended November 30, 2019	Three-month period ended August 31, 2019	Three-month period ended May 31, 2019
	\$	\$	\$	\$
Revenues	8,258	6,989	7,867	7,863
Net loss for the period	(1,382)	(1,871)	(1,617)	(1,053)
Basic and diluted net loss per share	(0.02)	(0.02)	(0.02)	(0.01)

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

For the quarter ended August 31, 2019, OpSens' coronary artery stenosis measurement (FFR and dPR) business showed growth despite the usual seasonal impact.

During the second semester of fiscal year 2020, activities were slower due to the COVID-19 situation.

## LIQUIDITY AND CAPITAL RESOURCES

As at February 28, 2021, the Company had cash and cash equivalents of \$39,313,000 compared to \$10,884,000 as at August 31, 2020. Of this amount as at February 28, 2021, \$8,891,000 were invested in highly-liquid, safe investments.

As at February 28, 2021, OpSens had a working capital of \$44,157,000, compared to \$16,888,000 as at August 31, 2020. The increase in working capital is mainly related to higher cash and cash equivalents.

On February 25, 2021, the Company completed a bought deal public offering for aggregate gross proceeds of \$28,750,000. In connection with the offering, the Company issued a total of 15,972,222 shares at a price of \$1.80 per share.

Transaction costs of the offering include underwriting fees of \$1,725,000 and other professional fees and miscellaneous fees of \$426,157 for total transaction costs of \$2,151,157 of which \$1,896,283 have been paid and \$254,874 are included in *Accounts payable and accrued liabilities*.

The company intend the use of proceeds from the equity financing as follow:

(In Canadian dollars)	Use of funds as planned	Over-Allotment	Funds available to Opsens from equity financing	Actual use of funds as at February 28, 2021	Funds remaining to be used
	\$	\$	\$	\$	\$
Net proceeds from the issue, including the over-allotment option	22,848,843	3,750,000	26,598,843	-	26,598,843
<b>Use of proceeds</b>				-	
Sales and Marketing	7,000,000	-	7,000,000	-	7,000,000
Research and Development	8,000,000	-	8,000,000	-	8,000,000
Capital expenditures and production ramp-up	3,000,000	-	3,000,000	-	3,000,000
Working capital	4,848,843	3,750,000	8,598,843	-	8,598,843
<b>Total use of proceeds</b>	<b>22,848,843</b>	<b>3,750,000</b>	<b>26,598,843</b>	<b>-</b>	<b>26,598,843</b>

Under a new loan agreement with a Canadian financial institution, the Company may receive a maximum amount of \$600,000. The loan bears interest at the prime rate plus 1.00% and is repayable in monthly instalments of \$16,668 and will mature in February 2024. The loan has a twelve months moratorium period without payment of principal following the date of the signature of the agreement. It is secured by a movable hypothec on the universality of the property, plant and equipment and intangible assets, present and future of the Company. On November 27, 2020, the Company received \$600,000 of this loan. Under this loan agreement, the Company is subject to certain covenants, which were met as of the date of this MD&A.

On February 27, 2019, OpSens announced that it has entered into a \$8,000,000 credit agreement (the “Agreement”) with a Canadian financial institution. The Agreement consists of a \$7,000,000 term loan, set to mature in 60 months with no principal payment for a 24-month period following the signature of the Agreement, bearing interest at prime rate plus 2.00% per annum and of a \$1,000,000 revolving operating credit margin bearing interest at prime rate plus 1.00%, set to mature in one year and that may be renewed on an annual basis. The disbursement of the \$7,000,000 term loan occurred on March 1, 2019, and the revolving operating credit was also available at that time. Deferred financing fees related to the Agreement include professional fees and miscellaneous fees of \$87,468. Under this Agreement, the Company is subject to certain covenants, which were met as of the date of this MD&A.

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

## SUMMARY OF CASH FLOWS

(In thousands of Canadian dollars)	Three-month period ended February 28, 2021	Three-month period ended February 29, 2020	Six-month period ended February 28, 2021	Six-month period ended February 29, 2020
	\$	\$	\$	\$
Operating activities	311	(2,041)	1,616	(2,652)
Investing activities	(242)	(397)	(494)	(746)
Financing activities	27 137	(361)	27,376	(496)
Effect of foreign exchange rate changes on cash and cash equivalents	(51)	14	(69)	16
<b>Net change in cash and cash equivalents</b>	<b>27,155</b>	<b>(2,785)</b>	<b>28,429</b>	<b>(3,878)</b>

### Operating Activities

For the three-month period ended February 28, 2021, cash flows generated by our operating activities were \$311,000 compared to cash flows used of \$2,041,000 for the same period last year. The increase in cash flows generated by our operating activities is mainly explained by a positive variance of EBITDAO, as explained previously and by a positive variance of changes in non-cash operating working capital items related to inventory of \$499,000 and government assistance receivable of \$335,000.

For the six-month period ended February 28, 2021, cash flows generated by our operating activities were \$1,616,000 compared to cash flows used of \$2,652,000 for the same period last year. The increase in cash flows generated by our operating activities is mainly explained by a positive variance of EBITDAO, as explained previously and by a positive variance of changes in non-cash operating working capital items related to inventory of \$282,000 and government assistance receivable of \$324,000. This is partly offset by a negative variance of changes in non-cash operating working capital items related to trade and other receivables of \$1,248,000.

### Investing Activities

For the three-month period ended February 28, 2021, cash flows used by our investing activities reached \$242,000 compared to \$397,000 for the same period in 2020. The decrease in cash flows used is mainly explained by lower acquisition of property, plant, and equipment and intangible assets for the Medical sector. This is partly offset by lower interest received.

For the six-month period ended February 28, 2021, cash flows used by our investing activities reached \$494,000 compared to \$746,000 for the same period in 2020. The decrease in cash flows used is mainly explained by lower acquisition of property, plant, and equipment and intangible assets for the Medical sector. This is partly offset by lower interest received.

### Financing Activities

For the three-month period ended February 28, 2021, cash flows generated by financing activities reached \$27,137,000 compared to cash flows used of \$361,000 for the same period in 2020. The variation is mainly explained by completion of a bought deal public offering during the month of February 2021.

For the six-month period ended February 28, 2021, cash flows generated by financing activities reached \$27,376,000 compared to cash flows used of \$496,000 for the same period in 2020. The variation is mainly explained by completion of a bought deal public offering during the month of February 2021.

## INFORMATION BY REPORTABLE SEGMENTS

### Segmented Information

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

Medical segment: in this segment, OpSens focuses mainly on physiological measurement such as FFR and DPR in the coronary artery stenosis market but also supplies a wide range of miniature optical sensors to measure pressure and temperature to be used in a wide range of applications that can be integrated in other medical devices. This also includes other revenues related to its optical sensor technology.

Industrial segment: in this segment, OpSens develops, manufactures and installs innovative fibre optic sensing solutions for critical and demanding industrial applications.

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

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

	Three-month period ended February 28, 2021			Three-month period ended February 29, 2020		
	Medical	Industrial	Total	Medical	Industrial	Total
	\$	\$	\$	\$	\$	\$
External sales	7,850,048	978,982	8,829,030	7,350,170	907,581	8,257,751
Internal sales	38,617	54,802	93,419	-	21,656	21,656
Gross margin	3,838,756	729,844	4,568,600	3,599,469	648,888	4,248,357
Depreciation of property, plant and equipment and right-of-use assets	344,356	38,194	382,550	324,349	61,578	385,927
Amortisation of intangible assets	55,756	2,742	58,498	22,373	3,211	25,584
Other income	5,025	105,000	110,025	-	-	-
Financial expenses	181,171	111,344	292,515	49,317	74,968	124,285
Current income taxes expense	18,704	-	18,704	-	-	-
Net income (loss)	(364,354)	405,101	40,747	(1,542,300)	160,278	(1,382,022)
Acquisition of property, plant and equipment	159,982	1,033	161,015	192,640	4,657	197,297
Additions to intangible assets	68,063	14,856	82,919	192,410	8,775	201,185
Segment assets	57,058,635	3,601,459	60,660,094	29,183,336	2,235,750	31,419,086
Segment liabilities	16,550,481	962,634	17,513,115	16,319,764	536,844	16,856,608

	Six-month period ended February 28, 2021			Six-month period ended February 29, 2020		
	Medical	Industrial	Total	Medical	Industrial	Total
	\$	\$	\$	\$	\$	\$
External sales	15,186,464	1,979,055	17,165,519	13,811,338	1,435,314	15,246,652
Internal sales	72,090	87,869	159,959	-	43,745	43,745
Gross margin	7,842,624	1,398,306	9,240,930	7,240,097	918,222	8,158,319
Depreciation of property, plant and equipment and right-of-use assets	688,008	72,789	760,797	639,913	126,146	766,059
Amortisation of intangible assets	104,751	5,265	110,016	40,549	7,188	47,737
Other income	445,506	154,798	600,304	-	-	-
Financial expenses	302,770	205,849	508,619	125,465	159,055	284,520
Current income taxes expense	18,704	-	18,704	-	-	-
Net income (loss)	(14,853)	649,751	634,898	(3,213,614)	(39,317)	(3,252,931)
Acquisition of property, plant and equipment	253,452	1,033	254,485	484,953	28,748	513,701
Additions to intangible assets	174,262	19,785	194,047	336,361	8,775	345,136
Segment assets	57,058,635	3,601,459	60,660,094	29,183,336	2,235,750	31,419,086
Segment liabilities	16,550,481	962,634	17,513,115	16,319,764	536,844	16,856,608

*Information by geographic segment*

	Three-month periods ended		Six-month periods ended	
	February 28, 2021	February 29, 2020	February 28, 2021	February 29, 2020
	\$	\$	\$	\$
Revenue by geographic segment				
United States	2,954,743	3,149,684	6,154,286	6,148,975
Japan	2,386,871	1,820,513	4,106,590	3,114,247
Canada	886,421	707,722	1,590,487	1,357,672
Other*	2,600,995	2,579,832	5,314,156	4,625,758
	8,829,030	8,257,751	17,165,519	15,246,652

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

Revenues are attributed to the geographic segment based on the clients' location. Non-current assets, which include property, plant and equipment, intangible assets and right-of-use assets, are mainly located in Canada. Non-current assets located in other countries are not significant.

During the three-month period ended February 28, 2021, revenues from two clients from the Medical's reportable segment represented individually more than 10% of the total revenues of the Company, i.e. 27% and 17% (23% and 22% for the three-month period ended February 29, 2020).

During the six-month period ended February 28, 2021, revenues from two clients from the Medical's reportable segment represented individually more than 10% of the total revenues of the Company, i.e. 24% and 19% (24% and 20% for the six-month period ended February 29, 2020).

#### *Medical Segment*

Information and analysis in this section for revenue and gross margin do not take into consideration other revenues (\$19,000 for the three-month period ended February 28, 2021, and nil for the three-month period ended February 29, 2020).

For the three-month period ended February 28, 2021, sales from the Medical segment were \$7,831,000 compared to \$7,350,000 for the three-month period ended February 29, 2020, an increase of \$481,000. The increase is explained by higher coronary artery stenosis measurement (FFR and dPR) sales of \$898,000. This is partly offset by lower OEM medical sales of \$416,000.

Gross margin was \$3,820,000 for the three-month period ended February 28, 2021, compared to \$3,599,000 for the three-month period ended February 29, 2020, an increase of \$221,000. The gross margin percentage was stable at 49% for the three-month period ended February 28, 2021 and for the corresponding period in 2020.

Net loss for the Medical segment was \$364,000 for the three-month period ended February 28, 2021, compared to a net loss of \$1,542,000 for the same period last year. The decrease in net loss is mainly explained by higher sales and the decreased in sales and marketing expenses following the adjustment of the size of our direct sales force in the United States.

Working capital for the Medical segment as at February 28, 2021, was \$41,825,000 compared to \$15,495,000 as at August 31, 2020. The increase of \$26,330,000 is mainly explained by higher cash and cash equivalents of \$28,181,000. This is partly offset by lower inventory of \$786,000 and higher current portion of long-term debt of \$1,397,000.

#### *Industrial Segment*

For the three-month period ended February 28, 2021, external sales from the Industrial segment were \$979,000 compared to \$908,000 for the three-month period ended February 29, 2020, an increase of \$71,000 mostly explained by a higher volume of orders compared to the same period last year.

Gross margin was \$730,000 for the three-month period ended February 28, 2021, compared to \$649,000 for the same period in 2020, an increase of \$81,000. The gross margin percentage slightly increased from 70% for the three-month period ended February 29, 2020, to 71% for the three-month period ended February 28, 2021. The increased in gross margin percentage is mainly explained by the higher volume of sales.

Net income for the Industrial segment was \$405,000 for the three-month period ended February 28, 2021, compared to \$160,000 for the three-month period ended February 29, 2020. The increase in net income is mainly explained by the higher volume of sales as explained before and by the CEWS of \$105,000.

Working capital for the Industrial segment as at February 28, 2021, was \$2,332,000 compared to \$1,393,000 as at August 31, 2020. The increase is mainly explained by higher cash and cash equivalents of \$248,000, by higher trades and other receivables of \$579,000 and by higher inventory of \$106,000.

## **SIX-MONTH PERIODS ENDED FEBRUARY 28, 2021 AND FEBRUARY 29, 2020**

### **Revenues**

Revenues totalled \$17,166,000 for the six-month period ended February 28, 2021 compared to revenues of \$15,247,000 for the corresponding period in 2020, an increase of \$1,919,000 or 13%. The increase is mainly explained by higher sales in the coronary artery stenosis measurement line of business (FFR and dPR) of \$1,947,000 and the industrial segment of \$544,000. This is partially offset by lower OEM medical sales of \$607,000 compared to the same period last year.

### **Gross Margin**

Information and analysis in this section do not take into consideration other revenues (\$37,000 for the six-month period ended February 28, 2021, and nil for the six-month period ended February 29, 2020, respectively).

Gross margin was \$9,204,000 for the six-month period ended February 28, 2021, compared to \$8,158,000 for the same period last year. The gross margin percentage was stable at 54% for the six-month period ended February 28, 2021 compared to the same period last year.

### **Administrative Expenses**

Administrative expenses were at \$2,957,000 and \$2,723,000, respectively, for the six-month period ended February 28, 2021 and the six-month period ended February 29, 2020. The increase is largely explained by higher headcount and professional fees.

### **Sales and Marketing Expenses**

Sales and marketing expenses totalled \$3,142,000 for the six-month period ended February 28, 2021, a decrease of \$2,543,000 over the \$5,685,000 reported during the same period in 2020. The decrease is largely explained by lower headcount, commissions, trade shows and travelling expenses when compared to last year related to the size adjustment of our direct sales force in the United States due to COVID-19.

### **Research and Development Expenses**

Research and development expenses totalled \$2,580,000 for the six-month period ended February 28, 2021, a decrease of \$139,000 over the \$2,719,000 reported during the same period in 2020. Expenses in 2021 are mainly related the development of our new pressure guidewire for the structural heart.

### **Other Income**

Other income was \$600,000 and nil, respectively, for the six-month period ended February 28, 2021 and February 29, 2020. The increase is explained by the recognition of a non-refundable contribution under the CEWS program for an amount of \$600,000.

### **Financial Expenses**

Financial expenses totalled \$509,000 for the six-month period ended February 28, 2021, compared to \$285,000 for the same period in 2020. The increase in financial expenses is mainly explained by a less favorable exchange rate of \$196,000 and by lower interest income of \$101,000. This is partially offset by lower interest expenses of \$76,000.

### **Net Income (Loss)**

As a result of the foregoing, net income for the six-month period ended February 28, 2021, was \$635,000 compared to net loss of \$3,253,000 for the same period in 2020.

## INFORMATION ON SHARE CAPITAL

For the six-month period ended February 28, 2021, the Company granted to some employees and directors a total of 936,250 stock options with an average exercise price of \$1.23, cancelled 149,750 stock options with an exercise price of \$0.89, 387,375 stock options with an average exercise price of \$1.03 were exercised, and 298,125 stock options with an exercise price of \$1.20 expired.

For the six-month period ended February 29, 2020, the Company granted to some employees and directors a total of 722,500 stock options with an average exercise price of \$0.87, cancelled 238,375 stock options with an exercise price of \$0.91, 100,000 stock options with an average exercise price of \$0.72 were exercised, and 176,250 stock options with an exercise price of \$0.76 expired.

As at April 13, 2021, the following components of shareholders' equity are outstanding:

Common shares	106,669,289
Stock options	7,083,000
<u>Securities on a fully diluted basis</u>	<u>113,752,289</u>

No dividend was declared per share for each share class.

## CAPACITY TO PRODUCE RESULTS

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

From the human resources' perspective, there are no vacancies in the major executive positions within the Company. However, additional technical and production personnel as well as sales and marketing personnel will be required to support the expected growth. Considering the employment market in Canada, the United States and Europe, the Company is confident in its capacity to recruit qualified human resources in a timely fashion.

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

## CHANGES IN INTERNAL CONTROLS OVER FINANCIAL REPORTING (ICFR)

In accordance with the requirements of National Instrument 52-109–Certification of Disclosure in Issuers' Annual and Interim Filings ("NI 52-109"), the Company has filed certificates signed by the Chief Executive Officer and the Chief Financial Officer that, among other things, report on the design of disclosure controls and procedures and the design of internal controls over financial reporting. There have been no changes in the Company's ICFR during the three-month period ended February 28, 2021, that have materially affected, or are reasonably likely materially affecting its ICFR.

## RISK FACTORS

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



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

#### **OFF-BALANCE SHEET ARRANGEMENTS**

As of February 28, 2021, the Company was not the primary beneficiary in Special Purpose Entities and there were no off-balance sheet arrangements.

#### **OTHER INFORMATION**

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

On behalf of management,  
Chief Financial Officer and Corporate Secretary

*(s) Robin Villeneuve, CPA, CA*

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April 13, 2021