opSens

MEASURE, IMPROVE.

ANNUAL REPORT 2013




OIL AND GAS | MEDICAL

CORPORATE PROFILE

Focusing primarily on two high growth markets, oil and gas and FFR in medical instrumentation, Opsens develops, manufactures, supplies and installs fiber optic systems to measure pressure, temperature and other parameters. These systems are designed around proprietary technologies that are effective and durable in extreme conditions.

MEDICAL INSTRUMENTATION — Fractional Flow Reserve ("FFR")

Heart disease affects millions of people worldwide. It is often caused by a blockage in arteries, which restricts blood flow, reducing the amount of oxygen the heart receives.

THE IMPORTANCE OF FFR

FFR is often performed by cardiologists during a Percutaneous Coronary Intervention (PCI) to measure blood pressure before and after a blockage to help in selecting treatment.

FFR is one of the few innovative medical practices that can achieve better clinical outcomes and provide costs savings.

FFR IS BACKED BY MULTIPLE RECENT STUDIES

These studies have proven that selecting a treatment based on an FFR exam:

- Reduces death by 30% in patients;
- Reduces procedure costs as fewer stents are installed; and,
- Provides justification for treatment that supports claims for reimbursement.

OPSENS AIMS TO ENTER THE FFR MARKET IN THE SECOND SEMESTER OF 2014.

Unique IP in FFR and optical sensing has allowed Opsens and its team to develop a product addressing the most common complaints brought on by cardiologists about available devices for the measurement of FFR.

The OptoWire is a Nitinol-based guidewire designed around Opsens' optical pressure sensing technology, which remains unaffected by blood, providing an accurate and reliable measurement of FFR even after multiple connections.

In 2012, the FFR market reached US$207 million, driven by growth of 43% in the previous 4 years.

The benefits brought on by FFR are fueling this growth.

> "Will FFR continue to grow? It's in its infancy. We have an over US$2 billion market opportunity here. We are just getting started."
> Scott Huennekens, CEO Volcano, Jan. 2013.
>
> This technology [FFR] is "well on its way to a new billion-dollar market."
> Daniel Starks, CEO St. Jude, Jan. 2012.

COMPLETED IN FISCAL 2013

- US$5-million agreement for distribution rights and other rights for the OptoWire in Japan, Korea and Taiwan.

OUTLOOK FOR 2014

- Filing for regulatory clearance in Japan (Shonin), the United States (510(K)) and Europe (CE Marking);
- First in-man study;
- Completion of the Verification and Validation phase;
- Additional distribution agreements;
- Commercialization – Opsens to reach the FFR market in calendar year 2014.

OIL & GAS

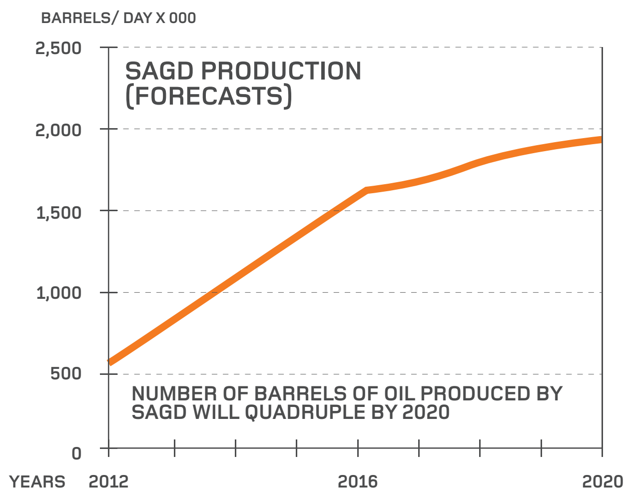
COMPLETED IN FISCAL 2013

In 2013, Opsens received its largest order to date from a new customer. In addition, Opsens received a large number of orders for its OPP-W system.

Alberta's market is our primary focus, as the number of barrels to be produced by SAGD is expected to practically fourfold between 2012 and 2020, Opsens is on the lookout for new opportunities outside its current markets as our technology may be adapted to new settings, opening new streams of revenues.

OUTLOOK FOR 2014

- Opsens' OPP-W sensor for SAGD has completed the adoption phase. It can be expected that the number of installations continues to grow.
- Opsens aims to expand its customer base and applications for the OPP-W sensor. Opsens also wants to extend its product line to accentuate its competitive advantage.
- The market for SAGD wells instrumentation will be closely related to the number of wells and to SAGD production, which are both expected to grow sharply in the coming years.



SAGD Instrumentation Market Assessment, Ian Murray & Company Ltd., Consultant report, June 26, 2012.

LETTER TO SHAREHOLDERS

It is with great confidence and enthusiasm that we have started the new year. In 2014, we expect to reap the fruits of our past efforts. We continue to execute our business plan for the creation of value for our shareholders, with particular emphasis on the sale of instruments in two fast-growing markets, the oil and gas and the medical fields, capitalizing on the competitive advantages our products offer.

MEDICAL INSTRUMENTATION – FFR

Opsens is targeting the Fractional Flow Reserve ("FFR") market, which is, according to the two players who share it, moving toward US$ 1-billion annually. Opsens expects to become a key player in this market, which has, in 2012, surpassed the US$200-million-mark, driven by a compounded annual growth rate of 43% for the previous four years. The strong growth in the practice of FFR is based on sound clinical evidence.

Opsens' products for the measurement of FFR aim to provide cardiologists with a guidewire with optimized performance to navigate easily in the human body to reach blockages and measure blood pressure. In addition, the nitinol-based guide is instrumented with an optical sensor immune to fluids and connects as often as needed while maintaining reliability of the measurement.

In the coming months, the Company expects to file for regulatory clearance, which will open the doors to major markets including the United States, Europe, Japan and Canada. Obtaining clearance will give Opsens the green light to commercialize the OptoWire in major world markets.

On the marketing side, Opsens wants to continue to develop its sales network to facilitate delivery of the OptoWire to end users. In the past year, Opsens signed a US$5-million agreement with a Japanese partner for the distribution rights and other rights for the OptoWire for Japan, Korea and Taiwan.

The OptoWire has the power to transform the Company. Penetration of a fraction of the FFR market will have a major impact on Opsens' consolidated sales. Opsens is sparing no effort to reach the market in as little time as possible, so that the Company and its shareholders can benefit from the efforts they have invested in this project.

OIL AND GAS

In the oil and gas market, Opsens generates most of its revenues from the thermal process of Steam Assisted Gravity Drainage ("SAGD"), widely used in Alberta. SAGD production is characterized by a hostile environment, where intense heat is combined with the presence of hydrogen and corrosive fluids.

The hostility of this environment makes Opsens' products stand out from traditional instruments. The OPP-W sensor measures pressure and temperature at high temperature to provide oil sands producers with reliable real-time information on SAGD wells. The ability to control downhole pressure and temperature allows SAGD operators to improve steam/oil ratio and reduce operating costs.

Alberta's oil producers are increasingly investing in management and monitoring of SAGD wells, as they are well aware of the added benefits of these equipment in terms of increased production, lower costs and improved security. For multiple well operations, our systems can generate millions of dollars in savings by reducing water treatment costs, optimizing the use of natural gas for steam production and improving the lifespan for artificial lift systems.

SAGD barrel production forecasts are expected to nearly fourfold between 2012 and 2020. Opsens is well-positioned to benefit from this increase because of its product range and quality of its expertise in sensor installation.

I thank our customers for their trust in our products. I thank Opsens' team for the quality of its work, which supports the growth of our business. I acknowledge the contribution of our directors who promote our development. They deploy their knowledge and energy to the benefit of the Company. Finally and most importantly, I want to thank our shareholders for the confidence they have placed in Opsens. I am grateful for the patience they have shown. Our goal is ultimately the fulfillment of their expectations.

(s) Louis Laflamme

President and CEO

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE YEAR ENDED AUGUST 31, 2013

The following comments are intended to provide a review and analysis of the results of operations, financial condition and cash flows of Opsens Inc. for the fourth quarter and year ended August 31, 2013 in comparison with the corresponding periods ended August 31, 2012. In this Management's Discussion and Analysis ("MD&A"), "Opsens", "the Company", "we", "us" and "our" mean Opsens Inc. and its subsidiary. This discussion should be read and interpreted in conjunction with the information contained in our annual consolidated financial statements for the years ended August 31, 2013 and 2012, which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. This document was prepared on November 25, 2013. 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 information currently available to it, 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 at November 25, 2013 and is subject to change after such 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.

CORPORATE OVERVIEW

Opsens is focusing on two main growth markets, oil and gas and Fractional Flow Reserve ("FFR") in medical instrumentation. The Company is also involved in laboratories activities. Opsens develops, manufactures, supplies and installs systems for measuring parameters of pressure, temperature and others using fiber optic sensing technologies. These systems are designed around patented technologies that are effective and durable in extreme conditions.

Opsens holds six (6) patents and has four (4) patents pending covering its products and technology provided to its markets, giving the Company freedom to operate. With its patented technologies and highly recognized expertise, Opsens meets consumers' needs in the medical, oil and gas and laboratory markets. Since December 11, 2007, activities in the oil and gas market have been performed by the wholly-owned subsidiary Opsens Solutions Inc. ("Opsens Solutions").

VISION, STRATEGY AND OUTLOOK

The worldwide market for fiber optic and conventional sensors is a multi-billion dollar opportunity. Opsens' sales and marketing strategy aims to provide solutions for selected niche markets, in particular, markets with challenging environments, where conventional solutions are either non-existent, operate marginally or quickly fail.

In its business plan, Opsens has identified markets where its products can bring better results to their users. Opsens' management is confident that the products it offers and those it develops for these markets will deliver value to its shareholders. In addition, Opsens remains open to business opportunities, including new projects and acquisitions, to enhance its core activities and consequently add to shareholders value.

The Company's expertise, know-how and patented technologies are key to new production techniques improving the reliability of measuring equipment. Also, Opsens' production technique called MEMS (Micro-Electro-Mechanical-System) encourages penetration into markets traditionally occupied by conventional sensors through higher production volumes and reduced manufacturing costs.

In 2014, Opsens expects its net loss will increase from year 2013 due to verification and validation expenses and to commercialization costs for the FFR device.

NON-IFRS FINANCIAL MEASURE - EBITDAO

The Company quarterly reviews net earnings (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 loss, depreciation and amortization, financial expenses (revenues), change in fair value of embedded derivative and stock-based compensation costs. The Company uses EBITDAO for the purposes of evaluating its historical and prospective financial performance. This measure also help the Company to plan and forecast for future periods as well as to make operational and strategic decisions. The Company believes that providing this information to investors, in addition to IFRS measures, allows them to see the Company's results through the eyes of management, and to better understand its historical and future financial performance.

Reconciliation of EBITDAO to net loss

(In thousands of Canadian dollars)	Year Ended August 31, 2013	Year Ended August 31, 2012	Year Ended August 31, 2011
	$	$	$
Net loss for the year	(2,366)	(1,930)	(2,469)
Financial expenses (revenues)	100	(97)	(89)
Change in fair value of embedded derivative	(17)	-	-
Depreciation of property, plant, and equipment	287	230	182
Amortization of intangible assets	31	35	26
EBITDA	(1,965)	(1,762)	(2,350)
Stock-based compensation costs	126	137	162
EBITDAO	(1,839)	(1,625)	(2,188)

The negative variance of EBITDAO for fiscal year 2013 when compared to last year is mainly explained by the increase in the net loss.

PRODUCTS AND INNOVATION

The Company is constantly working to improve its position in terms of intellectual property and what it can offer to its customers. In fiscal 2013, the Company focused on continuous improvements to its technology in markets with the highest perceived potential payoff, particularly oil and gas and medical instrumentation.

As for the oil and gas field over the next year, Opsens will continue to develop its existing product line while improving its ability to respond to customer needs for multiple specifications in the measurement of pressure and temperature and also by working on new products and applications to help the Company reach new markets and increase its revenues consequently.

OptoWire for the Measurement of FFR

In 2011, Opsens Inc. unveiled its offering for cardiologists to use in the measurement of FFR. FFR is an index of the functional severity of a coronary stenosis that is calculated from pressure measurements taken before and after a narrowing of the arteries during coronary arteriography. This increasingly used approach enables an "on the spot" diagnosis for a better assessment as to whether a stent is an appropriate intervention to improve blood circulation in the cardiovascular system.

A study published in 2009 in the New England Journal of Medicine, "Fractional Flow Reserve vs. Angiography for Multivessel Evaluation", found that a stent was not always an appropriate intervention, and that its overuse was actually doing patients more harm than good in some cases. Patients of doctors using FFR had fewer stents used and better outcomes overall, the study found.

The FFR market represents a significant opportunity for Opsens. Opsens intends to fully exploit this opportunity by an aggressive development of the OptoWire through the stages of preclinical, regulatory and commercialization. Opsens aims for the commercialization of its FFR product in the second half of calendar year 2014.

Unlike traditional guide wires, the OptoWire is a guide wire instrumented with a fiber optic pressure sensor, which is low-drift and will provide a high-fidelity measurement of blood pressure in coronary arteries. In addition to reliable measurement, the OptoWire aims to offer better mechanical performances in terms of trackability, torquability and support over existing pressure guide wires.

Scientific Advisory Board

To support the development and refinement of the OptoWire, Opsens has put together a scientific advisory board of experts in the field of FFR and clinical research, composed of Drs. Morton Kern, Olivier F. Bertrand and Michael J. Lim. These leading cardiologists are advising the Company on the development, clinical studies and commercialization of the OptoWire.

SELECTED CONSOLIDATED FINANCIAL DATA

(In thousands of Canadian dollars, except for information per share)	**Year Ended August 31, 2013**	**Year Ended August 31, 2012**	**Year Ended August 31, 2011**
	$	**$**	**$**
Sales	7,526	8,462	6,005
Cost of sales	4,780	5,722	4,157
Gross margin	2,746	2,740	1,848
Gross margin rate	36%	32%	31%
Administrative expenses	2,313	2,304	2,204
Marketing expenses	954	929	659
R&D expenses	1,762	1,534	1,543
Financial expenses (revenues)	100	(97)	(89)
Change in fair value of embedded derivative	(17)	-	-
	5,112	4,670	4,317
Loss before income taxes	(2,366)	(1,930)	(2,469)
Net loss and comprehensive loss	(2,366)	(1,930)	(2,469)
Net loss per share - Basic	(0.05)	(0.04)	(0.05)
Net loss per share - Diluted	(0.05)	(0.04)	(0.05)

Revenues

The Company reported revenues of $7,526,000 for the year ended August 31, 2013, compared to revenues of $8,462,000 a year earlier, a decrease of $936,000 or 11%.

Revenues in the oil and gas sector totalled $5,818,000 for the year ended August 31, 2013 compared to $6,300,000 in 2012. Installations of the first OPP-W sensor systems from the 48-well contract placed by an oil and gas producer for an Alberta SAGD oil sands project were delayed and began only in September 2013. They were originally planned to begin during the last quarter of fiscal 2013. Management anticipates that revenues from oil and gas will show growth for fiscal year 2014 when compared to fiscal year 2013, as the strong backlog as at August 31, 2013 already reflects commitments from our customers to buy OPP-Ws.

Revenues in the laboratories field totaled $1,057,000 for the year ended August 31, 2013 compared with revenues of $921,000 for the same period in 2012. The increase in revenues in the laboratory field is explained by a strong first quarter in fiscal 2013 where significant orders were placed by an important client.

The Company reported revenues of $119,000 under a manufacturing agreement in the high-power transformers field for the year ended August 31, 2013 compared with revenues of $674,000 for the same period last year. Following the sale of the transformer business in 2010, the manufacturing agreement has expired and Opsens will no longer be involved in the transformers field.

As at August 31, 2013, the backlog amounted to $4,380,000 ($888,000 at August 31, 2012).

Given that a proportion of the Company's revenues is generated in U.S. dollars, fluctuations in the exchange rate affect revenues and net loss. For the year ended August 31, 2013, the average exchange rate was approximately the same than for 2012 and consequently, it had no effect on the total sales.

Market acceptance of fiber optic sensors is increasing in the Company's markets. That being said, some sectors, such as oil and gas, are seeing additional competition. Opsens is addressing the added competition by highlighting the performance characteristics of its products compared with those of its competitors. For the periods ended August 31, 2013 and 2012, pricing fluctuations and new product launches did not have a significant impact on revenues.

Gross margin

The gross margin on product sales remained stable in fiscal year 2013 from a year earlier, going from $2,740,000 to $2,746,000. However, the gross margin rate increased from 32% for the year ended August 31, 2012 to 36% for the year ended August 31, 2013. The increase in the gross margin rate is explained by the completion of higher margin contracts in oil and gas, laboratories and medical instrumentation and to a lesser extent by a change in business mix where a higher proportion of gross margin was generated by businesses with gross margins above group average such as our oil and gas and medical revenues.

The Company expects the gross margin rate for the Company to move toward its target of 40% as revenues grow.

Administrative expenses

Administrative expenses remained stable at $2,314,000 for the year ended August 31, 2013 compared to $2,304,000 for the year ended August 31, 2012.

Marketing expenses

Sales and marketing expenses were $954,000 for the year ended August 31, 2013 compared to $929,000 in 2012, an increase of $25,000. The increase is explained by additional subcontractor fees incurred for the commercialization of our products.

Research and development expenses

Research and development expenses amounted to $1,762,000 and $1,534,000, respectively, for the years ended August 31, 2013 and 2012. The increase in the research and development expenses in 2013 when compared to 2012 is explained by costs incurred during the year for the FFR project because the verification and validation phase made significant progress.

Financial expenses (revenues)

Financial expenses reached $100,000 for the year ended August 31, 2013 compared to financial revenues of $97,000 for fiscal year 2012. The increase in the financial expenses during fiscal year 2013 is explained by lower interest revenues of $75,000 compared with last year explained by a lower balance on sale receivable, by an unfavourable change of $61,000 in the gain (loss) on foreign exchange and by higher interest expense of $41,000 arising from the issuance of the convertible debenture in November 2012.

Change in fair value of embedded derivative

The change in fair value of embedded derivative comes from the variance of the fair market value of the conversion option component of the convertible debenture. The convertible debenture contains a cash settlement feature, which under IAS 32, “Financial Instruments: Presentation”, 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. During the year, an amount of $17,000 was recorded as a gain in the consolidated statement of loss.

Net loss

As a result of the foregoing, net loss for the year ended August 31, 2013 was $2,366,000 compared to $1,930,000 in 2012.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION DATA

(In thousands of Canadian dollars)	As at August 31, 2013	As at August 31, 2012	As at August 31, 2011
	$	$	$
Current assets	8,459	5,895	6,927
Total assets	10,528	7,735	8,593
Current liabilities	2,415	1,595	1,137
Long-term liabilities	4,720	507	30
Shareholders' equity	3,393	5,633	7,426

Total assets as at August 31, 2013 were $10,528,000 compared to $7,735,000 as at August 31, 2012. The increase is mainly related to additional cash and cash equivalents arising from the issuance of the convertible debenture and to the amount received for the distribution rights for its FFR products, to higher inventories level compared to last year explained by the delay in the installations of the first OPP-W sensor systems from the 48-well contract and to the investments in property, plant and equipment required to support future growth of the Company.

Long-term liabilities totalled $4,720,000 as at August 31, 2013 compared to $507,000 as at August 31, 2012, an increase of $4,213,000. The increase is explained by the issuance of the convertible debenture and by the amount received for the distribution rights of the FFR products accounted for as deferred revenues in the long-term portion of the liabilities.

SUMMARY OF CONSOLIDATED QUARTERLY RESULTS

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

(Unaudited, in thousands of Canadian dollars)	Three-month period ended August 31, 2013	Three-month period ended May 31, 2013	Three-month period ended February 28, 2013	Three-month period ended November 30, 2012
	$	$	$	$
Revenues	1,451	1,706	1,836	2,533
Net profit (net loss) for the period	(1,075)	(689)	(623)	21
Net profit (net loss) per share – Basic	(0.02)	(0.01)	(0.01)	0.00
Net profit (net loss) per share – Diluted	(0.02)	(0.01)	(0.01)	0.00

(Unaudited, in thousands of Canadian dollars)	Three-month period ended August 31, 2012	Three-month period ended May 31, 2012	Three-month period ended February 28, 2012	Three-month period ended November 30, 2011
	$	$	$	$
Revenues	1,416	2,174	2,377	2,495
Net profit (net loss) for the period	(639)	(357)	(675)	(259)
Net profit (net loss) per share – Basic	(0.01)	(0.01)	(0.01)	(0.01)
Net profit (net loss) per share – Diluted	(0.01)	(0.01)	(0.01)	(0.01)

Historically, the Company's revenues and net profit (net loss) results has experienced minimal seasonality. Seasonal fluctuations have become more significant with the increase weighting of sales in the oil and gas field, since business activity is generally greater in the fall and winter for this sector.

LIQUIDITY AND CAPITAL RESOURCES

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$3,000,000 for the distribution rights for its FFR products for Japan, Korea and Taiwan, which includes:
    a. US$2,000,000 ($2,002,000) at signing;
    b. US$1,000,000 once Opsens gets regulatory approval for its FFR devices in Japan;
- US$2,000,000 ($2,002,000) in subordinated secured convertible debenture, at signing.

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

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

To secure the repayment of the convertible debenture, a movable hypothec on certain equipment has been given. 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.

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 any margining of accounts receivable and inventories. 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.

Under an agreement entered into with Canada Economic Development ("CED"), the Company may receive a refundable contribution of a maximum amount $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, 2013, the Company recognized for this refundable contribution an amount of $57,554 against research and development expenses. As at August 31, 2013, an amount of $150,000 remained to be received under the agreement.

At the end of the year ended August 31, 2012, the Company has received approval for financial support from the Ministère des Finances et de l'Économie ("MFE") in the form of a repayable contribution of $413,590 for the development of a portfolio of products for FFR. As at August 31, 2013, $164,213 remains to be received under the agreement.

As at August 31, 2013, the Company had cash and cash equivalents of $3,662,000 compared with $2,577,000 as at August 31, 2012. Of this amount as at August 31, 2013, $2,974,000 was invested in highly liquid, safe investments. As at August 31, 2013, Opsens had a working capital of $6,043,000, compared with a working capital of $4,300,000 as at August 31, 2012.

Based on the agreement announced on November 19, 2012 for the granting of distribution and other rights for FFR products, on the debt financings with the MDEIE, the CED and its financial institution, on the private placement completed on February 12, 2010, on the use of proceeds from the high-power transformers sale, on its cash and cash equivalents, on its working capital and its order backlog, Opsens has the financial resources necessary to maintain short-term operations, honour its commitments and support its anticipated growth and development activities. From a mid-term perspective, Opsens may need to raise additional financing by issuing equity securities and 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*. Fluctuation in cash and cash equivalents will depend particularly on the rate of revenue growth for the coming quarters.

For fiscal year 2014, the Company does not anticipate additional investments into the working capital.

SUMMARY OF CASH FLOWS

(In thousands of Canadian dollars)	Year Ended August 31, 2013	Year Ended August 31, 2012
	$	$
Operating activities	(319)	(1,795)
Investing activities	(548)	60
Financing activities	2,044	544
Net change in cash and cash equivalents	1,177	(1,191)

Operating activities

Cash flows used by our operating activities for the year ended August 31, 2013 were $319,000 compared to $1,795,000 for the same period last year, a decrease of $1,476,000. The decrease in the cash flows used by our operating activities is explained by the amount of $2,002,000 received for the granting of distribution and other rights for the FFR products and recognized as deferred revenues in the balance sheet and by an increase in the accounts payable and accrued liabilities of $698,000, partly offset by the increase in inventories of $1,049,000 for the year ended August 31, 2013 when compared to last year. The increase in inventories reflects the investments made by the Company to prepare the installations of the OPP-W sensors from the 48-well contract that began in September 2013.

Investing activities

For the year ended August 31, 2013, cash flows used by our investing activities reached $548,000 and were used for acquisitions of property, plant and equipment for an amount of $473,000 and $75,000 was used for additions to intangible assets. Acquisitions of property, plant and equipment were made primarily for our oil and gas activities and for our FFR project.

For the year ended August 31, 2012, cash flows generated by our investing activities reached $60,000. The proceeds from assets disposal of $499,000 was partly offset by acquisitions of property, plant and equipment of $302,000 and by additions to intangible assets of $137,000.

Financing activities

For the year ended August 31, 2013, cash flows generated by our financing activities reached $2,044,000. The proceeds from the issuance of the convertible debenture of $2,002,000 and the increase in our long-term debt of $265,000 were partly offset by the $191,000 payments on the long-term debt and by the $32,000 used for interest payments.

For the year ended August 31, 2012, cash flows generated by our financing activities reached $544,000. The increase in our long-term debt of $696,000 was partly offset by payments of $144,000 on the long-term debt and by the $8,000 used for interest payments.

COMMITMENTS

Leases

The Company leases offices in Québec under operating leases expiring on January 31, 2015. These agreements are renewable for an additional four-year period. Future rent, without considering the escalation clause, will amount to $310,254.

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 $220,280.

Opsens Solutions Inc. rents five vehicles under operating leases expiring in September 2013, October 2013, May 2014 and July 2015. Future rent payments will amount to $30,664.

Future payments for the leases and other commitments, totalling $561,198, required in each of the next two years are as follows:

	$
2014	363,530
2015	197,668

Licence

Under an exclusive licence with a third party, the Company is committed to provide exclusive distribution of some of its products for a defined territory.

INFORMATION BY REPORTABLE SEGMENTS

Segment's Information

The Company's reportable segments are strategic business units managed separately as one is focused on developing, producing, and supplying fiber optic sensors (Opsens Inc.) and the other (Opsens Solutions Inc.) is specialized in the commercialization and installation of optical and conventional sensors for the oil and gas industry. The same accounting policies are used for both reportable segments. Operations are carried out in the normal course of operations and are measured at the exchange amount which approximates prevailing prices in the markets.

	Years ended August 31,					
			2013			2012
	Opsens Inc.	**Opsens Solutions**	**Total**	Opsens inc.	Opsens Solutions Inc.	Total
	$	**$**	**$**	$	$	$
External sales	**1,773,715**	**5,752,707**	**7,526,422**	2,179,251	6,282,679	8,461,930
Internal sales	**1,369,950**	**-**	**1,369,950**	1,260,182	-	1,260,182
Depreciation of property, plant and equipment	**168,953**	**118,516**	**287,469**	148,492	81,632	230,124
Amortization of intangible assets	**25,294**	**5,709**	**31,003**	30,425	4,133	34,558
Financial expenses (revenues)	**(193,991)**	**293,764**	**99,773**	(371,978)	275,611	(96,367)
Net profit (net loss)	**(2,440,218)**	**74,393**	**(2,365,825)**	(1,895,102)	(34,576)	(1,929,678)
Acquisition of property, plant and equipment	**159,202**	**313,586**	**472,788**	88,871	212,747	301,618
Additions to intangible assets	**74,639**	**600**	**75,239**	91,943	44,758	136,701
Segment assets	**6,150,782**	**4,377,345**	**10,528,127**	4,741,097	2,993,942	7,735,039
Segment liabilities	**6,042,685**	**1,092,264**	**7,134,949**	1,593,538	508,020	2,101,558

Geographic sector's information

	Years ended August 31,	
	2013	2012
	$	$
Revenue per geographic sector		
Canada	**5,825,550**	6,396,767
United States	**571,160**	1,297,038
Other*	**1,129,712**	768,125
	7,526,422	8,461,930

* Comprised of revenues generated in countries for which amounts are individually no significant.

Revenues are attributed to 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, 2013, revenues from three clients represented individually more than 10% of the total revenues of the Company, i.e. approximately 49.4% (Opsens Solutions Inc.' reportable segment), 12.2% (Opsens Solutions Inc.' reportable segment) and 10.3% (Opsens Solutions Inc.' reportable segment).

During the year ended August 31, 2012, revenues from two clients represented individually more than 10% of the total revenues of the Company, i.e. approximately 47.4% (Opsens Solutions Inc.' reportable segment) and 18.2% (Opsens Solutions Inc.' reportable segment).

Opsens Inc. segment

For the year ended August 31, 2013, revenues from Opsens Inc. segment were $1,774,000 compared to $2,179,000 in 2012, a decrease of $405,000. The decrease is explained by the termination of the manufacturing agreement in the high-power transformers field that negatively impacted our revenues by $555,000. The decrease was partly offset by higher revenues in the laboratories field where significant revenues were realized with a governmental agency in the United States.

Gross margin was $611,000 for the year ended August 31, 2013, compared to $847,000 for 2012, a decrease of $236,000. The decrease in the gross margin is mainly explained by the decrease in the gross margin rate that went from 25% for the year ended August 31, 2012 to 19% for the fiscal year 2013. The decrease of the gross margin rate arises from the decrease in the revenues as explained above where a portion of the cost of sales is comprised of semi-fixed costs which do not necessarily decrease at the same rate as revenues.

Net loss for the Opsens Inc. segment was $2,440,000 for the year ended August 31, 2013 compared to a net loss of $1,895,000 for the year ended August 31, 2012. The increase in net loss reflects lower gross margin as explained above and the increase in research and development expenses as explained in the "SELECTED CONSOLIDATED FINANCIAL DATA" section of this MD&A. Finally, the increase in the net loss is explained by higher financial expenses arising from the issuance of the convertible debenture in November 2012, by an unfavorable variance of the gain (loss) on foreign exchange and by lower interest revenues when compared with the corresponding period in 2012 because of a lower balance on sale receivable.

The working capital of Opsens Inc. segment as at August 31, 2013 was $4,125,000 compared to $2,936,000 as at August 31, 2012. The increase of $1,189,000 in the working capital is due to the amounts received by Opsens Inc. following the signing of the distribution agreement with a Japanese medical company in November 2012 partly offset by the cash flows used in our operating activities and investing activities amounting to $2,596,000 and $234,000, respectively.

Opsens Solutions Inc. segment

For the year ended August 31, 2013, revenues from Opsens Solutions Inc. segment were $5,753,000 compared to $6,283,000 in 2012, a decrease of $530,000. The decrease is explained by several oil & gas installations carried over in time and by delays encountered for the installation of the first OPP-W systems for the 48-well contract that was announced back in March.

Gross margin was $2,135,000 for the year ended August 31, 2013 compared to $1,893,000 in 2012, an increase of $242,000. The increase of the gross margin is explained by an increase in the gross margin rate that increased from 30% in 2012 to 37% in 2013. The increase in the gross margin rate is explained by the completion of higher margin contracts during the first quarter of fiscal 2013 and by increased efficiencies in the production department resulting from better costs control.

Net profit (loss) for Opsens Solutions Inc. segment rose from a net loss of $35,000 in 2012 to a net profit of $74,000 in 2013. The increase in the net profit is mainly explained by the increase in the gross margin as explained previously.

The working capital of Opsens Solutions Inc. segment as at August 31, 2013 was $2,095,000 compared to $1,364,000 as at August 31, 2012. The increase of $731,000 in the working capital is explained by increased inventory level as at August 31, 2013 to support future installations.

FOURTH QUARTER 2013

Revenues

Revenue totalled $1,451,000 for the quarter ended August 31, 2013 compared with $1,416,000 a year earlier. The increase is mainly explained by higher revenues in the oil and gas field.

Gross margin

Gross margin was $321,000 for the three-month period ended August 31, 2013 compared to $405,000 for the same period last year, a decrease of $84,000. The decrease in gross margin is primarily attributable to higher overhead costs to cope with the expected growth in revenues for fiscal 2014.

Administrative expenses

Administrative expenses were $619,000 and $493,000 respectively for the three-month periods ended August 31, 2013 and 2012. The increase is explained by higher salaries and employee benefits resulting from the performance-based compensation and to a lesser extent by additional recruiting fees of $38,000 compared with last year.

Marketing expenses

Marketing expenses for the quarter were $224,000 during the fourth quarter ended August 31, 2013, an increase of $42,000 over the $182,000 reported during the same period in 2012. The increase is mainly explained by grants received from the provincial government during the fourth quarter last year.

Research and development expenses

Research and development expenses totalled $525,000 for the quarter ended August 31, 2013, an increase of 177,000$ over the $348,000 reported during the same period in 2012. The variation is explained by the numerous OptoWire devices manufactured during the last quarter of fiscal 2013 for the Verification and Validation phase.

Financial expenses (revenues)

Financial expenses reached $29,000 for the quarter ended August 31, 2013 compared to $20,000 in the same quarter last year. The increase in the financial expenses is explained by higher interest expense of $14,000 related to the convertible debenture issued in November 2012 and by an unfavourable change of $10,000 in the gain (loss) on foreign exchange, partly offset by the change in fair value of embedded derivative of $17,000.

Change in fair value of embedded derivative

The change in fair value of embedded derivative comes from the variance of the fair market value of the conversion option component of the convertible debenture. During the quarter, an amount of $18,000 was recorded as a gain in the consolidated statement of loss.

Net loss

As a result of the foregoing, net loss for the quarter ended August 31, 2013 was $1,075,000 or 2 cent a share compared to $639,000 or 1 cent a share for the same quarter in 2012.

INFORMATION ON SHARE CAPITAL

For the year ended August 31, 2013, the Company granted to some employees and Directors a total of 1,483,667 stock options with an average exercise price of $0.24, cancelled 46,000 stock options with an exercise price of $0.22 and 715,000 stock options with an exercise price of $0.77 expired.

For the year ended August 31, 2012, the Company granted to some employees and Directors a total of 1,684,000 stock options with an average exercise price of $0.22, cancelled 1,092,000 stock options with an exercise price of $0.47 and 1,350,000 stock options with an exercise price of $0.47 expired.

As at the date of this MD&A, the following components of shareholders' equity are outstanding:

Common shares	47,905,983
Stock options	4,161,667
Convertible debenture	4,000,000
Securities on a fully diluted basis	56,067,650

The number of shares that would be issued upon conversion of the debenture may vary depending on various parameters such as the exchange rate and the conversion price per share. In the table above, the conversion was carried out on the assumption that the Canadian dollar is even with the U.S. dollar and the conversion price is equal to the minimum conversion price which is $0.50 per share.

No dividend was declared per share for each share class.

RELATED-PARTY TRANSACTIONS

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

	Years ended August 31,	
	2013	2012
	$	$
Professional fees to a company controlled by a director	**34,216**	34,937
	34,216	34,937

Fees are incurred for the Company's FFR activities.

FINANCIAL INSTRUMENTS

Fair Value

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

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

The fair value of the convertible debenture is based on the discounted value of future cash flows under the current financial arrangements at the interest rate the Company expects to currently negotiate for loans with similar terms and conditions and maturity dates. The fair value of the convertible debenture approximates $1,338,000 as at

August 31, 2013.

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

As at August 31, 2012, there were no assets or liabilities measured at fair value.

The convertible debenture contains an embedded derivative that must be measured at fair value at each reporting date with gains and losses in fair value recognized through profit or loss. One of the most significant assumption impacting the Company's valuation of these embedded derivative is the implied volatility. For 2013, the Company used an implied volatility of 122%. A 1% change in the implied volatility factor would have changed the fair value of the embedded derivative by $321 and a 1% change in the credit spread factor would have changed the fair value of the embedded derivative by $4,928.

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.

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 uncollectible. Two major customers represent 64.4% of the Company's accounts receivable as at August 31, 2013 (71.4% as at August 31, 2012).

As at August 31, 2013, 12.8% (25.1% as at August 31, 2012) of the accounts receivable were of more than 90 days whereas 42.8% (60.5% as at August 31, 2012) of those were less than 30 days. The maximum exposure to the risk of credit for receivable corresponded to their book value. As at August 31, 2013, the allowance for doubtful accounts was established at $21,000 ($21,861 on August 31, 2012).

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.

The maximum exposure to credit risk approximates the amount recognized in the consolidated statement of financial position.

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 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 turning to capital markets to carry out issues of equity and debt securities.

The following are the contractual maturities of the financial liabilities (principal and interest, assuming current interest rates) as at August 31, 2013 and August 31, 2012:

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**

August 31, 2012	Carrying amount	Cash flows	0 to 12 months	12 months to 24 months	After 24 months
	$	$	$	$	$
Accounts payable and accrued liabilities	1,343,905	1,343,905	1,343,905	-	-
Long-term debt	673,380	837,302	195,523	164,247	477,532
Total	2,017,285	2,181,207	1,539,428	164,247	477,532

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, 2013, the Company was holding more than 81.2% (49.8% as at August 31, 2012) of its cash and cash equivalents in all time redeemable term deposits.

For fiscal 2013, all else being equal, a hypothetical 1% interest rate increase would have had an unfavourable impact of $3,700 on the net loss for the year ended August 31, 2013 (unfavourable impact of $3,400 on the net loss for the year ended August 31, 2012). A hypothetical 1% interest rate decrease would have had a favourable impact of $3,700 on the net loss for the year ended August 31, 2013 (favourable impact of $3,400 for the year ended August 31, 2012).

Financial expenses (revenues)

	Years ended August 31,	
	2013	2012
	$	$
Interest and bank charges	**54,108**	34,500
Interest on long-term debt	**39,307**	27,634
Interest on convertible debenture	**39,599**	-
Loss (gain) on foreign currency translation	**26,638**	(34,184)
Interest income	**(59,735)**	(124,317)
	99,117	(96,367)

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, 2013 and 2012, the Company was holding 100% of its cash equivalents portfolio in all-time redeemable term deposits with the same financial institution.

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, 2013 and 2012, if the Canadian dollar had strengthened 10% against the US dollar with all other variables held constant, net loss would have been $154,000 lower for the year ended August 31, 2013 (net loss would have been $39,000 lower for the year ended August 31, 2012). Conversely, if the Canadian dollar had weakened 10% against the US dollar with all other variables held constant, net loss would have been $154,000 higher for the year ended August 31, 2013 (net loss would have been $39,000 higher for the year ended August 31, 2012).

As at August 31, 2013 and August 31, 2012, the risk to which the Company was exposed is established as follows:

	As of August 31, 2013	As of August 31, 2012
	$	$
Cash and cash equivalents (US$1,620,546)	**1,706,435**	498,551
Trade and other receivables (US$186,033)	**195,892**	205,388
Accounts payable and accrued liabilities (US$296,434)	**(356,149)**	(292,195)
Convertible debenture (US$1,990,316)	**(2,095,799)**	-
Embedded derivative (US$32,300)	**(34,012)**	-
Total	**(583,633)**	411,744

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 by non-dilutive sources, including the sale of non-core assets, investment tax credits and grants, interest income and by dilutive source such as public equity offerings.

As at August 31, 2013, the Company's working capital amounted to $6,043,352, including cash and cash equivalents of $3,662,259. The accumulated deficit at the same date was $15,274,768. 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, 2013

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 make 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, 2013 and 2012, the Company has not been in default under any of its obligations regarding the long-term debt.

CAPACITY TO PRODUCE RESULTS

As discussed in the section regarding financial position, 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.

During the next year, the activity level should not require additional investment in working capital. Investments in capital of a few hundreds of thousands of dollars will be needed to respond to Opsens' operational needs.

From the human resources' perspective, there are no vacancies in the major executive and technical positions within the Company. However, additional production personnel will be required in Quebec and Alberta. Taking into account the employment market in Canada, Opsens is confident in its capacity to recruit qualified human resources in a timely fashion.

Regarding the strategy on corporate executive remuneration, it is oriented towards creation of 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 in order to align shareholders' interest with corporate executives' interest. This long-term vision stimulates innovation and the development of recurrent revenues.

NEW ACCOUNTING STANDARDS

There are no IFRSs or International Financial Reporting Interpretations Committee ("IFRIC") that are effective for the first time in 2013 that would be expected to have a material impact on the Company.

Adopted in 2013

In June 2011, the IASB amended IAS 1, Presentation of Financial Statements ("IAS 1"), to change the disclosure of items presented in other comprehensive income into two groups, based on whether those items may be recycled to profit or loss in the future. The amendments to IAS 1 apply to financial statements for annual periods beginning after July 1, 2012, with early adoption permitted.

Not yet adopted

Financial Instruments

a. IFRS 9, "Financial Instruments"

IFRS 9, "Financial Instruments" was issued in November 2009 and addresses classification and measurement of financial assets. It replaces the multiple category and measurement models in IAS 39, "Financial Instruments: Recognition and Measurement" for debt instruments with a new mixed measurement model consisting of only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments. Such instruments are either recognized at fair value through profit or 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 profit or loss to the extent that they do not clearly represent a return on investment. However, other gains and losses (including impairment losses) related to such instruments remain in accumulated other comprehensive income indefinitely. Requirements for financial liabilities were added to IFRS 9 in October 2010, largely carrying forward existing requirements in IAS 39, except that changes in fair value due to credit risk for liabilities designated at fair value through profit or loss are generally recorded in other comprehensive income. In July 2013, the International Accounting Standards Board ("IASB") confirmed that the January 1, 2015 initial adoption date will be deferred. The Company is currently evaluating the impact of adopting this new standard on its financial statements. The Company does not intend to opt for early adoption.

b. IAS 32, "Financial Instruments : Presentation"

In December 2011, the IASB issued amendments to IAS 32, "Financial Instruments: Presentation", clarifying the requirements for offsetting financial assets and liabilities. The amendments will be effective for fiscal years beginning on or after January 1, 2014. The IASB also issued amendments to IFRS 7, "Financial Instruments: Disclosure", improving disclosure on offsetting of financial assets and liabilities. IFRS 7 will be effective for annual and interim periods beginning on or after January 1, 2013 and IAS 32 will be effective for annual and interim periods beginning on or after January 1, 2014. The Company is currently evaluating the impact of adopting these amendments on its financial statements. The Company does not intend to opt for early adoption.

Consolidation

In May 2011, the IASB issued the following standards: IFRS 10, "Consolidated Financial Statements", IFRS 11, "Joint Arrangements" and IFRS 12, "Disclosure of Interests in Other Entities". Each of the new standards is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted. The Company has assessed that the new and amended standards will have no significant impact on the consolidated financial statements and decided not to early adopt any of the new requirements.

a. IFRS 10, "Consolidated Financial Statements"

IFRS 10, "Consolidated Financial Statements" requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when a company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces Standing Interpretations Committee ("SIC") 12, "Consolidation - Special Purpose Entities" and parts of IAS 27, "Consolidated and Separate Financial Statements".

b. IFRS 11, "Joint Arrangements"

IFRS 11, "Joint Arrangements" requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operations. Joint ventures will be accounted for using the equity method of accounting while for a joint operation the venturer will recognize its share of the assets, liabilities, revenues and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 replaces IAS 31, "Interests in Joint Ventures" and SIC 13, "Jointly Controlled Entities - Non-monetary Contributions by Venturers".

c. IFRS 12, "Disclosure of Interests in Other Entities"

IFRS 12, "Disclosure of Interests in Other Entities" establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles and off consolidated statement of financial position vehicles. This standard carries forward existing disclosures and also introduces significant additional disclosures requirements that address the nature of, and risks associated with, an entity's interests in other entities.

Fair Value Measurement

IFRS 13, "Fair Value Measurement" is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures.

This new standard applies to fiscal years beginning on or after January 1, 2013. The Company is currently evaluating the impact of adopting this new standard on its financial statements. The Company does not intend to opt for early adoption.

RISK FACTORS AND UNCERTAINTIES

The Company operates in an industry that contains various risks and uncertainties. The risks and uncertainties listed below are not the only ones to which the Company is subject. 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 following 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.

Intellectual property and exclusive rights

In order to protect its intellectual property rights, the Company relies on a combination of laws related to patents and trademarks, trade secrets, confidentiality procedures and contractual provisions. Despite the Company's best efforts to protect its intellectual property rights, unauthorized individuals may attempt to copy certain aspects of the Company's products or obtain information that the Company considers to be its property. The monitoring of the unauthorized use of exclusive technologies, if applicable, may prove difficult, time consuming and expensive. In addition, the laws of certain countries in which the Company's products will be sold do not protect their products and their related intellectual property rights in the same way as the laws of Canada and the United States. There is no certainty that the Company will successfully protect its intellectual property rights, which could unfavourably affect it. Patents applications, claims, PCTs and Continuations in Part filed by the Company could be incomplete, invalid, circumvented or deemed not applicable. Legal proceedings could prove necessary to carry out patent applications, claims, PCTs and Continuation in Part. These cases could lead to considerable expenses without any guarantee of success. Intellectual property rights could be disputed. Despite the Company's best efforts to ensure its right to market its products on its target markets, competitor patents could impede the sales potential of certain products.

Quality problems with processes and products

The manufacture of the Company's products is a highly exacting and complex process, due in part to strict regulatory requirements. Failure to manufacture its products in accordance with product specifications could result in increased costs, lost revenues, field corrective actions, customer dissatisfaction or voluntary product recalls, any of which could harm the Company's profitability and commercial reputation. Problems may arise during manufacturing for a variety of reasons, including equipment malfunction, failure to follow specific protocols and procedures, problems with raw materials, natural disasters and environmental factors. Quality is extremely important to the Company and its customers due to the serious and costly consequences of product failure. The Company's quality certifications are critical to the marketing success of its products. If the Company fails to meet these standards, its reputation could be damaged, it could lose customers and its revenues and results of operations could decline. Aside from specific customer standards, the Company's success depends generally on its ability to manufacture to exact tolerances precision-engineered components, subassemblies and finished devices from multiple materials. If the Company's components fail to meet these standards or fail to adapt to evolving standards, its reputation as a manufacturer of high-quality devices will be harmed, its competitive advantage could be damaged and the Company could lose customers and market share.

Competition and technological obsolescence

Competitors and new companies could launch new products or new medical procedures. In order to remain on the cutting edge of technology, the Company may need to launch a new generation of products and develop related products and services. Whether it is competition from development companies and/or marketing of fiber optic sensors or a merger or acquisition of existing companies, competition within certain markets targeted by the Company is strong and is likely to increase. Some of the Company's competitors have significantly greater financial, technical, distribution and marketing resources than the Company. Technological progress and product development could make the Company's products obsolete or reduce their value.

Product failures and mistakes

The Company's products are complex and therefore may contain failures and mistakes that could be detected at any time in a product's life cycle. Failures and mistakes in its products could have a significant unfavourable impact on its reputation, open it up to significant costs, delay product launch dates and harm its ability to sell its products in the future. The costs of correcting a failure or mistake in one of these products could be significant and could negatively affect its operating margins. Although the Company expects to continue to test products to detect failures and mistakes and to work with its customers through its support and maintenance services in order to find and correct failures and mistakes, they could appear in its products in the future.

Warranties, recalls and legal proceedings

The Company is exposed to warranty expenses, product recalls and other claims, particularly if the products prove to be defective, which would harm business development and the Company's reputation.

Delays in planned product introductions

The Company is currently developing new products as well as product enhancements with respect to its existing products. The Company has in the past experienced, and may again in the future experience, delays in various phases of product development and commercial launch, including during research and development, manufacturing, limited release testing, marketing and customer education efforts. Any delays in its product launches may significantly impede the Company's ability to successfully compete in its markets and may reduce its revenues.

The Company and its present and future collaborators may fail to develop or effectively commercialize products covered by its present and future collaborations if:

- the Company does not achieve its objectives under its collaboration agreements;
- the Company or its collaborators are unable to obtain patent protection for the products or proprietary technologies it develops in its collaborations; or
- the Company or its collaborators encounter regulatory hurdles that prevent commercialization of its products.

If the Company or its collaborators are unable to develop or commercialize products, the Company will be delayed or prevented from developing and commercializing products, which will harm its business and financial results.

Divestitures of any businesses or product lines

The Company continues to evaluate the performance of all of its businesses and may sell a business or product line. Any divestitures may result in significant write-offs, including those related to goodwill and other intangible assets, which could have a material adverse effect on the Company's business, results of operations and financial condition. Divestitures could involve additional risks, including difficulties in the separation of operations, services, products and personnel, the diversion of management's attention from other business concerns, the disruption of its business and the potential loss of key employees. The Company may not be successful in managing these or any other significant risks that it encounters in divesting a business or product line.

Future capital requirements

The Company incurred operating losses in the past fiscal years. The Company's ability to satisfy its obligations and to finance future activities depends on its capacity to reach a profitability level or to be supported by its shareholders and creditors. Nothing guarantees that the Company will be able to attract the capital required to continue the development and the marketing of its technologies. In the event that the Company does not manage to find additional capital, this could have unfavourable impacts on the Company's activities, revenues, financial situation and operating results.

Revenues

The Company draws most of its revenues from the sale of products such as sensors and signal contitioners in the oil and gas. The Company feels that the revenues from these products will continue to represent a significant share of the Company's revenues for the foreseeable future. Consequently, the Company is particularly vulnerable to fluctuations in the demand in this market. Therefore, if demand for the Company's products decreases significantly in this market, the Company and the operating results could be unfavourably affected.

Labour and key personnel

The Company depends on the services of its engineers, technical employees and key management personnel. The loss of one of these people could have a significant unfavorable impact on the Company, its operating results and its financial position. The success of the Company is largely dependent upon its ability to identify, hire, train, motivate and retain highly skilled management employees, engineers, technical employees and sales and marketing personnel. Competition for its employees can be intense and the Company cannot ensure that it will be able to bring in and retain highly skilled technical and management personnel in the future. Its inability to bring in and retain management and technical personnel and the necessary sales and marketing employees could have unfavourable impacts on its growth and future profitability. The Company may be obligated to increase the compensation paid to current or new employees, which could substantially increase operating expenses.

Growth management and market development

There is no guarantee that the Company can develop its market share significantly in its targeted markets, thus affecting its profitability. The Company's expected rapid growth might create significant pressure on management, operations and technical resources. The Company foresees increased operating and personnel expenses in the future. In order to manage its growth, the Company may need to increase the size of its technical and operational staff and manage its personnel while maintaining many effective relationships with third parties. There is no guarantee that the Company will be able to manage its business growth. The Company's inability to establish consistent management systems, add economic resources or manage its expansion adequately would have a significant, unforeseeable effect on its activities and operating results.

Pricing policies

The competitive market in which the Company operates could force it to reduce its prices. If its competitors offer large discounts on certain products and services in order to gain market share or sell products and services, the Company may need to lower its prices and offer other favourable terms in order to compete successfully. Such changes could reduce profit margins and have an unfavourable impact on its operating results. Some of the Company's competitors could offer products and services that compete with theirs for promotional purposes or as part of a long-term pricing strategy or offer price guarantees or product implementation. With time, these practices could limit the prices that the Company may charge for its products and services. If the Company cannot offset these price reductions with a corresponding increase in sales or decreased expenses, the decreased revenues from the sale of products and services could unfavourably affect its profits margins and operating results.

Currency exchange rate

The Company expects that a significant portion of Opsens Inc. segment revenues be denominated in American dollars while a greater part of Opsens Solutions Inc. segment expenses are incurred in American dollars. The exchange rate fluctuations between the two currencies may have an unfavourable impact on its activities, financial position and operating results. Based on future prospects in the FFR market, the proportion of sales denominated in American dollars should increase in the coming years. This change could have the effect of reducing the risk on a consolidated basis.

Restrictive clauses

The Company has a restrictive clause regarding working capital in the agreement with its financial institution. If this restrictive clause is not respected, the Company may need to allocate a portion of its working capital to repaying a loan valued at $325,524 as ay August 31, 2013.

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) Thierry Dumas

November 25, 2013

Consolidated Financial Statements

Opsens Inc.

Years ended August 31, 2013 and 2012

Opsens Inc.
Years ended August 31, 2013 and 2012

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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, 2013 and 2012, and the consolidated statements of loss and comprehensive loss, changes in equity and 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 audits 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, 2013 and 2012, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Deloitte S.E.N.C.R.L.[1]

November 25, 2013

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

Opsens Inc.

Consolidated Statements of Loss and Comprehensive Loss
Years ended August 31, 2013 and 2012

	2013	2012
	$	$
Revenues		
Sales	**7,526,422**	8,461,930
Cost of sales	**4,779,824**	5,721,529
Gross margin	**2,746,598**	2,740,401
Expenses (revenues) (note 25)		
Administrative	**2,313,634**	2,303,747
Marketing	**953,716**	928,784
Research and development	**1,762,161**	1,533,915
Financial expenses (revenues) (note 26)	**99,917**	(96,367)
Change in fair value of embedded derivative (note 14)	**(17,005)**	-
	5,112,423	4,670,079
Net loss and comprehensive loss	**(2,365,825)**	(1,929,678)
Net loss per share (note 16)		
Basic	**(0.05)**	(0.04)
Diluted	**(0.05)**	(0.04)

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

Opsens Inc.
Consolidated Statements of Changes in Equity
Years ended August 31, 2013 and 2012

	Common shares	Stock options	**Total**	Common shares	Reserve – Warrants	Reserve – Stock option plan	Deficit	**Total**
	(number)	(number)	**(number)**	$	$	$	$	**$**
Balance as at August 31, 2012	47,865,983	3,419,000	**51,284,983**	15,201,618	2,190,382	1,150,424	(12,908,943)	**5,633,481**
Options granted (note 15b)	-	1,483,667	**1,483,667**	-	-	-	-	**-**
Options forfeited (note 15b)	-	(715,000)	**(715,000)**	-	-	-	-	**-**
Options cancelled (note 15b)	-	(46,000)	**(46,000)**	-	-	-	-	**-**
Stock-based compensation (note 15b)	-	-	**-**	-	-	125,522	-	**125,522**
Net loss	-	-	**-**	-	-	-	(2,365,825)	**(2,365,825)**
Balance as at August 31, 2013	47,865,983	4,141,667	**52,007,650**	15,201,618	2,190,382	1,275,946	(15,274,768)	**3,393,178**

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

Opsens Inc.

Consolidated Statements of Changes in Equity
Years ended August 31, 2013 and 2012

	Common shares	Warrants	Stock options	**Total**	Common shares	Reserve – Warrants	Reserve – Stock option plan	Deficit	**Total**
	(number)	(number)	(number)	**(number)**	$	$	$	$	**$**
Balance as at August 31, 2011	47,865,983	2,443,049	4,177,000	**54,486,032**	15,201,618	2,190,382	1,013,335	(10,979,265)	**7,426,070**
Options granted (note 15b)	-	-	1,684,000	**1,684,000**	-	-	-	-	**-**
Options forfeited (note 15b)	-	-	(1,350,000)	**(1,350,000)**	-	-	-	-	**-**
Options cancelled (note 15b)	-	-	(1,092,000)	**(1,092,000)**	-	-	-	-	**-**
Warrants expired (note 15c)	-	(2,443,049)	-	**(2,443,049)**	-	-	-	-	**-**
Stock-based compensation (note 15b)	-	-	-	**-**	-	-	137,089	-	**137,089**
Net loss	-	-	-	**-**	-	-	-	(1,929,678)	**(1,929,678)**
Balance as at August 31, 2012	47,865,983	-	3,419,000	**51,284,983**	15,201,618	2,190,382	1,150,424	(12,908,943)	**5,633,481**

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

Opsens Inc.

Consolidated Statements of Financial Position
As of August 31, 2013 and 2012

	2013	2012
	$	$
Assets		
Current		
Cash and cash equivalents (note 17)	**3,662,259**	2,576,586
Trade and other receivables (note 5)	**959,857**	901,311
Income tax credits receivable (note 22)	**565,086**	299,395
Work in progress	**55,491**	-
Inventories (note 6)	**3,028,306**	1,979,073
Prepaid expenses	**187,672**	138,773
	8,458,671	5,895,138
Property, plant and equipment (note 7)	**998,461**	813,142
Intangible assets (note 8)	**394,421**	350,185
Goodwill (note 9)	**676,574**	676,574
	10,528,127	7,735,039
Liabilities		
Current		
Accounts payable and accrued liabilities (note 11)	**2,042,063**	1,343,905
Warranty provision (note 19)	**144,783**	84,273
Deferred revenues	**51,188**	-
Current portion of long-term debt (note 13)	**177,285**	166,404
	2,415,319	1,594,582
Deferred revenues (note 12)	**2,002,000**	-
Long-term debt (note 13)	**587,819**	506,976
Convertible debenture (note 14)	**2,129,811**	-
	7,134,949	2,101,558
Shareholders' equity		
Share capital (note 15a)	**15,201,618**	15,201,618
Reserve – Stock option plan	**1,275,946**	1,150,424
Reserve – Warrants	**2,190,382**	2,190,382
Deficit	**(15,274,768)**	(12,908,943)
	3,393,178	5,633,481
	10,528,127	7,735,039

Commitments (note 18)

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

Approved by the board

Signed [Jean Lavigueur] director

Signed [Louis Laflamme] director

Opsens Inc.

Consolidated Statements of Cash Flows
Years ended August 31, 2013 and 2012

	2013	2012
	$	$
Operating activities		
Net loss	**(2,365,825)**	(1,929,678)
Adjustments for:		
Depreciation of property, plant and equipment	**287,469**	230,124
Amortization of intangible assets	**31,003**	34,558
Stock-based compensation costs	**125,522**	137,089
Change in fair value of embedded derivative	**(17,005)**	-
Interest expense (revenues)	**90,324**	(62,456)
Effect of foreign exchange rate changes on cash and cash equivalents	**91,116**	(19,921)
Unrealized foreign exchange gain (loss)	**104,105**	(4,019)
Changes in non-cash operating working capital items (note 17)	**1,333,996**	(180,640)
	(319,295)	(1,794,943)
Investing activities		
Acquisition of property, plant and equipment	**(472,788)**	(301,618)
Additions to intangible assets	**(75,239)**	(136,701)
Proceeds of assets disposal	**-**	498,740
	(548,027)	60,421
Financing activities		
Proceeds from the issuance of the convertible debenture	**2,002,000**	-
Increase in long-term debt	**265,222**	695,601
Reimbursement of long-term debt	**(191,025)**	(143,963)
Interest paid	**(32,086)**	(7,771)
	2,044,111	543,867
Effect of foreign exchange rate changes on cash and cash equivalents	**(91,116)**	19,921
Increase (decrease) in cash and cash equivalents	**1,085,673**	(1,170,734)
Cash and cash equivalents – Beginning of year	**2,576,586**	3,747,320
Cash and cash equivalents – End of year	**3,662,259**	2,576,586

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. (the "Company") is incorporated under the *Business Corporation Act* (Quebec). The Company is focusing on two main growth markets, oil and gas and Fractional Flow Reserve ("FFR"). The Company is also involved in laboratories activities. Opsens develops, manufactures, supplies and installs systems for measuring parameters of pressure, temperature and others. 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, Quebec, Quebec, 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 Company prepares its consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS) as set out in the Canadian Institute of Chartered Accountants (CICA) Handbook. The Company has consistently applied the accounting policies throughout all fiscal 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. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities, and continue to be consolidated until the date that such 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.

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.

2. Summary of Significant Accounting Policies (continued)

Revenue Recognition (continued)

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 periods 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.

Stock-based Compensation and Other Stock-based Payments

The Company offers a stock option plan described in note 15, which is determined as an equity-settled plan, and issues warrants to certain investors from time to time.

The Company uses the fair value-based method to assess the fair value of stock options or warrants 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 over the vesting period and are credited 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.

2. Summary of Significant Accounting Policies (continued)

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.

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 seventeen 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.

2. Summary of Significant Accounting Policies (continued)

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.

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.

2. Summary of Significant Accounting Policies (continued)

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.

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.

2. Summary of Significant Accounting Policies (continued)

Loss per Share

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

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

Financial Instruments

a) Classification

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

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

2. Summary of Significant Accounting Policies (continued)

Financial Instruments (continued)

b) *Impairment of financial assets*

A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor and indications that a debtor or issuer will enter bankruptcy.

c) *Compound Financial Instrument*

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

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

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, 2013, 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. Future Accounting Changes

Financial Instruments

a. IFRS 9, "Financial Instruments"

IFRS 9, "Financial Instruments" was issued in November 2009 and addresses the classification and measurement of financial assets. It replaces the multiple category and measurement models in IAS 39, "Financial Instruments: Recognition and Measurement", for debt instruments with a new mixed measurement model consisting of only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments. Such instruments are either recognized at fair value through profit or 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 profit or loss to the extent that they do not clearly represent a return on investment. However, other gains and losses (including impairment losses) related to such instruments remain in accumulated other comprehensive income indefinitely. Requirements for financial liabilities were added to IFRS 9 in October 2010, largely carrying forward existing requirements in IAS 39, except that changes in fair value due to credit risk for liabilities designated at fair value through profit or loss are generally recorded in other comprehensive income. In July 2013, the International Accounting Standards Board ("IASB") confirmed that the January 1, 2015 initial adoption date will be deferred. The Company is currently evaluating the impact of adopting this new standard on its financial statements. The Company does not intend to opt for early adoption.

4. Future Accounting Changes (continued)

Financial Instruments (continued)

b. IAS 32, "Financial Instruments : Presentation"

In December 2011, the IASB issued amendments to IAS 32, "Financial Instruments: Presentation", clarifying the requirements for offsetting financial assets and liabilities. The amendments will be effective for fiscal years beginning on or after January 1, 2014. The IASB also issued amendments to IFRS 7, "Financial Instruments: Disclosure", improving disclosure on offsetting of financial assets and liabilities. IFRS 7 will be effective for annual and interim periods beginning on or after January 1, 2013 and IAS 32 will be effective for annual periods beginning on or after January 1, 2014. The Company is currently evaluating the impact of adopting these amendments on its financial statements. The Company does not intend to opt for early adoption.

Consolidation

In May 2011, the IASB issued the following standards: IFRS 10, "Consolidated Financial Statements", IFRS 11, "Joint Arrangements" and IFRS 12, "Disclosure of Interests in Other Entities". Each of the new standards is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted. The Company has assessed that the new and amended standards will have no significant impact on the consolidated financial statements and decided not to early adopt any of the new requirements.

a. IFRS 10, "Consolidated Financial Statements"

IFRS 10, "Consolidated Financial Statements," requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when a company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces Standing Interpretations Committee ("SIC") 12, "Consolidation - Special Purpose Entities" and parts of IAS 27, "Consolidated and Separate Financial Statements".

b. IFRS 11, "Joint Arrangements"

IFRS 11, "Joint Arrangements" requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operations. Joint ventures will be accounted for using the equity method of accounting while for a joint operation the venturer will recognize its share of the assets, liabilities, revenues and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 replaces IAS 31, "Interests in Joint Ventures" and SIC 13, "Jointly Controlled Entities - Non-monetary Contributions by Venturers."

c. IFRS 12, "Disclosure of Interests in Other Entities"

IFRS 12, "Disclosure of Interests in Other Entities", establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles and off consolidated statement of financial position vehicles. This standard carries forward existing disclosures and also introduces significant additional disclosures requirements that address the nature of, and risks associated with, an entity's interests in other entities.

4. Future Accounting Changes (continued)

Fair Value Measurement

IFRS 13, “Fair Value Measurement”, is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures.

This new standard applies to fiscal years beginning on or after January 1, 2013. The Company is currently evaluating the impact of adopting this new standard on its financial statements. The Company does not intend to opt for early adoption.

5. Trade and other receivables

	As of August 31, 2013	As of August 31, 2012
	$	$
Trade	**836,570**	724,383
Allowance for doubtful accounts	**(21,000)**	(21,861)
Sales taxes receivable	**40,041**	38,075
Government assistance receivable	**104,246**	160,714
Total	**959,857**	901,311

Allowance for doubtful accounts variation

	Years ended August 31,	
	2013	2012
	$	$
Balance – Beginning of year	**(21,861)**	(3,082)
Unused amounts reversed during the year	**861**	-
Additional provisions recognized	**-**	(18,779)
Balance – End of year	**(21,000)**	(21,861)

6. Inventories

	As of August 31, 2013	As of August 31, 2012
	$	$
Raw materials	**1,234,566**	795,918
Finished goods	**1,793,740**	1,183,155
Total	**3,028,306**	1,979,073

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 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 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 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 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									
at August 31, 2013	**42,242**	**422**	**656,038**	**8,053**	**231,631**	**5,509**	**29,131**	**25,435**	**998,461**

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 $23,834	Research and development computer equipment, net of income tax credits of $3,078	Computer equipment	Leasehold improvements	Total
	$	$	$	$	$	$	$	$	$
Cost									
Balance at August 31, 2011	89,320	8,326	405,209	59,028	828,610	30,599	180,691	92,180	1,693,963
Additions	14,087	-	202,036	-	61,242	380	4,962	18,911	301,618
Balance at August 31, 2012	103,407	8,326	607,245	59,028	889,852	30,979	185,653	111,091	1,995,581
Accumulated depreciation									
Balance at August 31, 2011	49,769	6,757	89,135	35,476	560,253	27,776	149,230	33,919	952,315
Depreciation	7,349	314	76,321	7,066	87,055	1,809	23,846	26,364	230,124
Balance at August 31, 2012	57,118	7,071	165,456	42,542	647,308	29,585	173,076	60,283	1,182,439
Net book value									
at August 31, 2012	46,289	1,255	441,789	16,486	242,544	1,394	12,577	50,808	813,142

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, 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**

	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, 2011	200	-	49,795	327,630	377,625
Additions	-	30,000	11,261	95,440	136,701
Balance as at August 31, 2012	200	30,000	61,056	423,070	514,326
Accumulated amortization					
Balance as at August 31, 2011	-	-	46,152	83,431	129,583
Amortization	-	-	3,287	31,271	34,558
Balance as at August 31, 2012	-	-	49,439	114,702	164,141
Net book value as at August 31, 2012	200	30,000	11,617	308,368	350,185

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, 2013	As of August 31, 2012
	%	%
Growth rate	**4**	4
Long-term growth rate	**4**	4
Discount rate	**17.9**	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 $4,445,000 as at August 31, 2013 and 2012.

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, 2013 and 2012.

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, 2013	As of August 31, 2012
	$	$
Suppliers	**982,136**	541,637
Salaries, employee benefits and others	**375,681**	314,924
Other liabilities	**684,246**	487,344
Total	**2,042,063**	1,343,905

12. Deferred Revenues

On November 19, 2012, the Company announced the granting of distribution and other rights for OptoWire and OptoMonitor, Opsens' products for measuring Fractional Flow Reserve (FFR). Under the terms of the agreement, the Company received:

- US$3 million for the distribution rights for its FFR products for Japan, Korea and Taiwan, which includes:

  a. US$2 million at signing ("upfront license fee");

  b. US$1 million once Opsens gets regulatory approval for its FFR devices in Japan ("milestone payment");

- US$2 million in convertible debenture, at signing, as described in note 14 of these consolidated financial statements.

12. Deferred Revenues (continued)

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

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

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

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

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

The Company believes that the three conditions for a reimbursement of the upfront license fee listed above will not occur over the next twelve months. Consequently, the deferred revenues have been recorded in the long-term liabilities section of the consolidated statement of financial position.

13. Long-term Debt

	As of August 31, 2013	As of August 31, 2012
	$	$
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	**325,524**	456,382
Contributions repayable to Ministère des Finances et de l'Économie (MFE), without interest, repayable in five equal and consecutive annual instalments of $49,875, maturing in September 2018		
Debt balance	**249,377**	249,377
Imputed interest	**(74,863)**	(108,409)
	174,514	140,968
Term loans, bearing interest at rates varying from 5.69% to 6.79%, payable in monthly instalments of $3,161, including interest, maturing in November and December 2017	**140,718**	-
Amounts carried forward	**640,756**	597,350

13. Long-term Debt (continued)

	As of August 31, 2013	As of August 31, 2012
	$	$
Amounts carried forward	**640,756**	597,350
Contributions repayable to Canada Economic Development, without interest, repayable in twenty equal and consecutive quarterly instalments of $7,408, maturing in August 2020		
Debt balance	**148,158**	-
Imputed interest	**(64,293)**	-
	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	**34,011**	43,522
Capital lease, bearing interest at 9.7%, payable in monthly instalments of $837, including interest, and a final payment of $837, maturing in April 2014	**6,472**	15,420
Contributions repayable to Canada Economic Development, without interest, repayable in five equal and consecutive annual instalments of $39,567 and $20,000, matured in June 2013		
Debt balance	**-**	19,996
Imputed interest	**-**	(3,772)
	-	16,224
Capital lease, bearing interest at 13.5%, payable in monthly instalments of $140, including interest, and a final payment of $740, matured in October 2012	**-**	864
	765,104	673,380
Current portion	**177,285**	166,404
	587,819	506,976

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		
	$	$	$	$	$
2014	19,053	2,364	16,689	160,596	177,285
2015	12,350	1,362	10,988	162,555	173,543
2016	12,350	540	11,810	139,588	151,398
2017	992	6	986	74,553	75,539
2018	-	-	-	58,689	58,689

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, 2013 and 2012, these financial ratios were met by the Company.

14. Convertible Debenture

	As of August 31, 2013	As of August 31, 2012
	$	$
Debt component reported as long-term liability (US$1,990,316)	**2,095,799**	-
Embedded derivative reported as long-term liability (US$32,300)	**34,012**	-
Total	**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, 2013, the net book value of property, plant and equipment pledged as collateral was $66,000 ($99,300 as at August 31, 2012). 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.

Financial expenses (revenues) associated with the debenture consist of:

	Years ended August 31,	
	2013	2012
	$	$
Interest expense on face value	**33,069**	-
Notional interest representing accretion	**7,639**	-
Change in fair value of embedded derivative	**(17,005)**	-
Total	**23,703**	-

As at August 31, 2013, the convertible debenture has an estimated fair value of $1,338,000.

15. Share Capital, Stock-Options and Warrants

a) *Share capital*

Authorized, unlimited number

Common shares, voting and participating, without par value

Issued and fully paid

	Number	Amount
		$
Balance as at August 31, 2013 and 2012	47,865,983	15,201,618

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

b) Stock options

The Shareholders approved the stock option plan on January 21, 2013 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 580,000 outstanding options granted, 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, 2013 is $125,522 ($137,089 for the year ended August 31, 2012).

The fair value of options granted in 2013 was determined using the Black-Scholes option pricing model with the following assumptions:

	Years ended August 31,	
	2013	2012
Risk-free interest rate	Between 1.20% and 1.72%	Between 0.93% and 1.25%
Expected volatility	Between 89% and 134%	Between 62% and 88%
Expected dividend yield on shares	Nil	Nil
Duration	5 years	5 years
Weighted share price	$0.24	$0.22
Weighted fair value per option at the grant date	$0.15	$0.12

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 remaining 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, 2011 and August 31, 2013 are as follows:

	Number of options	Weighted-average exercise price
		$
Outstanding as at August 31, 2011	4,177,000	0.51
Options granted	1,684,000	0.22
Options forfeited	(1,350,000)	0.47
Options cancelled	(1,092,000)	0.47
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 exercisable as at August 31, 2013	1,500,313	0.33

The table below provides information on the outstanding stock options as at August 31, 2013:

Exercise price	Number of outstanding stock options	Number of exercisable stock options	Weighted-average remaining contractual life (years)
$			
0.20	813,000	265,750	3.85
0.21	250,000	-	4.36
0.23	870,000	292,500	3.21
0.24	80,000	80,000	4.24
0.25	1,103,667	-	4.39
0.35	278,000	169,000	2.84
0.36	115,750	86,813	1.71
0.37	181,250	181,250	0.62
0.38	250,000	225,000	2.08
0.40	90,000	90,000	0.27
0.60	50,000	50,000	0.82
0.64	50,000	50,000	0.79
1.15	10,000	10,000	1.21
	4,141,667	1,500,313	3.37

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, 2011 and August 31, 2012 are as follows:

	Number of warrants	Weighted-average exercise price
		$
Outstanding as at August 31, 2011	2,443,049	1.11
Warrants expired	(2,443,049)	1.11
Outstanding as at August 31, 2012	-	-
Warrants exercisable as at August 31, 2012	-	-

i) Warrants expired

During the year ended August 31, 2012, 2,443,049 warrants entitling its holder to acquire one common share of the Company at an average price of $1.11 per share expired.

16. 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,	
	2013	2012
	$	$
Net loss attributable to shareholders		
Basic and diluted	**(2,365,825)**	(1,929,678)
Number of shares		
Basic and diluted weighted-average number of shares outstanding	**47,865,983**	47,865,983
Amount per share		
Net loss per share		
Basic	**(0.05)**	(0.04)
Diluted	**(0.05)**	(0.04)

16. 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,	
	2013	**2012**
Stock options	**1,025,000**	1,745,000
Warrants	**-**	2,443,049

For the years ended August 31, 2013 and 2012, the diluted amount per share was the same amount as the basic amount per share, since the dilutive effect of the stock options and convertible debenture was not included in the calculation; otherwise, the effect would have been antidilutive. Accordingly, the diluted amount per share for 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,	
	2013	2012
	$	$
Changes in non-cash operating working capital items		
Trade and other receivables	**(58,546)**	(316,137)
Income tax credits receivable	**(265,691)**	(30,248)
Work in progress	**(55,491)**	-
Inventories	**(1,049,233)**	(208,464)
Prepaid expenses	**(48,899)**	(8,129)
Accounts payable and accrued liabilities	**698,158**	372,797
Warranty provision	**60,510**	9,541
Deferred revenues	**2,053,188**	-
	1,333,996	(180,640)

	As of August 31, 2013	As of August 31, 2012
	$	$
Cash and cash equivalents		
Cash	**687,881**	1,292,845
Short-term investments	**2,974,378**	1,283,741
	3,662,259	2,576,586

18. Commitments

Leases

The Company leases offices in Québec under operating leases expiring on January 31, 2015. These agreements are renewable for an additional four-year period. Future rent, without considering the escalation clause, will amount to $310,254.

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 $220,280.

Opsens Solutions Inc. rents five vehicles under operating leases expiring in September 2013, October 2013, May 2014 and July 2015. Future rent payments will amount to $30,664.

Future payments for the leases and other commitments, totalling $561,198, required in each of the forthcoming years are as follows:

	$
2014	363,530
2015	197,668

In 2013, the offices lease expense is $367,188 ($295,221 in 2012).

Licence

Under an exclusive licence with a third party, the Company is committed to provide exclusive distribution of some of its products for a defined territory.

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, 2013, the Company recognized an expense of $158,470 ($99,741 for the year ended August 31, 2012) for guarantees. A provision for $144,783 is recorded for guarantees as of August 31, 2013 ($84,273 as at August 31, 2012). The following table summarizes changes in warranty provision:

	Years ended August 31,	
	2013	2012
	$	$
Balance – Beginning of year	**84,273**	74,732
Additional provisions recognized	**158,470**	99,741
Amounts used during the year	**(97,960)**	(90,200)
Balance – End of year	**144,783**	84,273

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, 2013, the Company recognized for this refundable contribution an amount of $57,554 against research and development expenses. As at August 31, 2013, an amount of $150,000 remained to be received under the agreement.

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 $262,500 to cover some of its incurred costs to develop a new product. During the year ended August 31, 2013, the Company recorded contributions totalling $183,486 which were accounted against research and development expenses.

Under an agreement reached with the Ministère des Finances et de l'Économie, the Company was granted a non-refundable contribution of $100,000 to cover some of its expenses incurred for the market development of its products. For the year ended August 31, 2012, the Company recorded contributions of $44,502 and $23,533, which were accounted respectively against marketing expenses and administration 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, 2012, the Company recorded for this refundable contribution of $78,717 against research and development expenses. As at August 31, 2013, $164,213 remains to be received under the agreement.

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,	
	2013	2012
	$	$
Income tax payable using the combined federal and provincial statutory tax rate (26.9%; 27.0% in 2012)	**(637,820)**	(528,075)
Non-deductible expenses	**444,611**	429,523
Deductible financing fees	**(28,995)**	(51,139)
Taxable income	**269,269**	-
Non-taxable income tax credits	**(86,953)**	(111,408)
Losses carried forward	**39,888**	261,099
Income tax using effective income tax rate	**-**	-

21. Income Taxes (continued)

As at August 31, 2013, the Company has tax losses of approximately $8,685,400 for federal purposes and $8,373,900 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	2,122,500
2032	1,282,000	1,281,000
2033	551,000	552,000
	8,685,400	8,373,900

The Company also has undeducted research and development expenses of $4,825,000 for federal purposes and $7,266,000 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 $5,488,000 were entirely provisioned due to the uncertainty concerning the Company's ability to generate taxable income. In addition, deferred tax liabilities of approximately $391,408 related to federal investment tax credits, property, plant and equipment were recognized and offset by a deferred income tax asset.

22. Income Tax Credits for Scientific Research and Experimental Development

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

	Years ended August 31,	
	2013	2012
	$	$
Federal	**1,122,674**	1,225,609
Provincial	**1,122,674**	1,230,765

22. Income 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,	
	2013	2012
	$	$
Federal	-	-
Provincial	**265,691**	327,882
	265,691	327,882

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

Reimbursable scientific research income tax credits earned for the year ended August 31, 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, 2013 are about $1,607,749 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 (continued)

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,					
			2013			2012
	Opsens Inc.	**Opsens Solutions Inc.**	**Total**	Opsens Inc.	Opsens Solutions Inc.	Total
	$	**$**	**$**	$	$	$
External sales	**1,773,715**	**5,752,707**	**7,526,422**	2,179,251	6,282,679	8,461,930
Internal sales	**1,369,950**	**-**	**1,369,950**	1,260,182	-	1,260,182
Depreciation of property, plant and equipment	**168,953**	**118,516**	**287,469**	148,492	81,632	230,124
Amortization of intangible assets	**25,294**	**5,709**	**31,003**	30,425	4,133	34,558
Financial expenses (revenues)	**(193,991)**	**293,764**	**99,773**	(371,978)	275,611	(96,367)
Net profit (net loss)	**(2,440,218)**	**74,393**	**(2,365,825)**	(1,895,102)	(34,576)	(1,929,678)
Acquisition of property, plant and equipment	**159,202**	**313,586**	**472,788**	88,871	212,747	301,618
Additions to intangible assets	**74,639**	**600**	**75,239**	91,943	44,758	136,701
Segment assets	**6,150,782**	**4,377,345**	**10,528,127**	4,741,097	2,993,942	7,735,039
Segment liabilities	**6,042,685**	**1,092,264**	**7,134,949**	1,593,538	508,020	2,101,558

Geographic sector's information

	Years ended August 31,	
	2013	2012
	$	$
Revenue per geographic sector		
Canada	**5,825,550**	6,396,767
United States	**571,160**	1,297,038
Other*	**1,129,712**	768,125
	7,526,422	8,461,930

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

Revenues are attributed to the geographic sector based on the clients' location. Capital assets, which include property, plant and equipment and intangible assets, are all located in Canada.

23. Segmented Information (continued)

Geographic sector's information (continued)

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 49.4% (Opsens Solutions Inc.'s reportable segment), 12.2% (Opsens Solutions Inc.'s reportable segment) and 10.3% (Opsens Solutions Inc.'s reportable segment).

During the year ended August 31, 2012, revenues from two clients represented individually more than 10% of the total revenues of the Company, i.e. approximately 47.4% (Opsens Solutions Inc.'s reportable segment) and 18.2% (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,	
	2013	2012
	$	$
Professional fees due to a company controlled by a director	**34,216**	34,937
	34,216	34,937

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,	
	2013	2012
	$	$
Short-term salaries and other benefits	**885,879**	857,181
Option-based awards	**154,348**	86,683
	1,040,227	943,864

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	**2013**	2012
	$	$
Salaries & Other Benefits	**4,816,921**	4,198,650
Cost of sales		
Administrative		
Marketing		
Research and development		
Depreciation of Property, Plant and Equipment	**287,469**	230,124
Cost of sales		
Administrative		
Marketing		
Research and development		
Amortization of Intangible Assets	**31,003**	34,558
Cost of sales		
Administrative		
Marketing		
Research and development		
Government Assistance	**(241,040)**	(146,752)
Administrative		
Marketing		
Research and development		
Income tax credits for research and development	**(265,691)**	(327,882)
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 convertible debenture approximates $1,338,000 as at August 31, 2013.

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

As at August 31, 2012, there were no assets or liabilities measured at fair value.

26. Financial Instruments (continued)

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

As explained in Note 14, the convertible debentures contain 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. For 2013, the Company used an implied volatility of 122%. A 1% change in the implied volatility factor would have changed the fair value of the embedded derivative by $321.

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 uncollectible. Two major customers represent 64.4% of the Company's accounts receivable as at August 31, 2013 (71.4% as at August 31, 2012).

As at August 31, 2013, 12.8% (25.1% as at August 31, 2012) of the accounts receivable were of more than 90 days whereas 42.8% (60.5% as at August 31, 2012) 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, 2013, the allowance for doubtful accounts was established at $21,000 ($21,861 as at August 31, 2012).

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.

The maximum exposure to credit risk approximates the amount recognized in the consolidated statement of financial position.

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 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 turning to capital markets to carry out issues of equity and debt securities.

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, 2013 and August 31, 2012:

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**

August 31, 2012	Carrying amount	Cash flows	0 to 12 months	12 months to 24 months	After 24 months
	$	$	$	$	$
Accounts payable and accrued liabilities	1,343,905	1,343,905	1,343,905	-	-
Long-term debt	673,380	837,302	195,523	164,247	477,532
Total	2,017,285	2,181,207	1,539,428	164,247	477,532

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

26. Financial Instruments (continued)

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, 2013, the Company was holding more than 81.2% (49.8% as at August 31, 2012) of its cash and cash equivalents in all-time redeemable term deposits.

For fiscal 2013, all else being equal, a hypothetical 1% interest rate increase would have had an unfavourable impact of $3,697 on the net loss for the year ended August 31, 2013 (unfavourable impact of $3,386 on the net loss for the year ended August 31, 2012). A hypothetical 1% interest rate decrease would have had a favourable impact of $3,721 on the net loss for the year ended August 31, 2013 (favourable impact of $3,386 for the year ended August 31, 2012).

Financial expenses (revenues)

	Years ended August 31,	
	2013	2012
	$	$
Interest and bank charges	**54,108**	34,500
Interest on long-term debt	**39,307**	27,634
Interest on convertible debenture	**39,599**	-
Loss (gain) on foreign currency translation	**26,638**	(34,184)
Interest income	**(59,735)**	(124,317)
	99,917	(96,367)

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, 2013 and 2012, the Company was holding 100% of its cash equivalents portfolio in all-time redeemable term deposits with the same financial institution.

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, 2013 and 2012, if the Canadian dollar had strengthened 10% against the US dollar with all other variables held constant, net loss would have been $154,000 lower for the year ended August 31, 2013 (net loss would have been $39,000 lower for the year ended August 31, 2012). Conversely, if the Canadian dollar had weakened 10% against the US dollar with all other variables held constant, net loss would have been $154,000 higher for the year ended August 31, 2013 (net loss would have been $39,000 higher for the year ended August 31, 2012).

26. Financial Instruments (continued)

Foreign currency sensitivity analysis (continued)

As at August 31, 2013 and August 31, 2012, the risk to which the Company was exposed is established as follows:

	As of August 31, 2013	As of August 31, 2012
	$	$
Cash and cash equivalents (US$1,620,546)	**1,706,435**	498,551
Trade and other receivables (US$186,033)	**195,892**	205,388
Accounts payable and accrued liabilities (US$296,434)	**(356,149)**	(292,195)
Convertible debenture (US$1,990,316)	**(2,095,799)**	-
Embedded derivative (US$32,300)	**(34,012)**	-
Total	**(583,633)**	411,744

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, 2013, the Company's working capital amounted to $6,043,352, including cash and cash equivalents of $3,662,259. The accumulated deficit at the same date was $15,274,768. 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, 2013

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, 2013 and 2012, 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 25, 2013.

GOVERNANCE

DIRECTORS

Pierre Carrier
Chairman

Louis Laflamme
President, Chief Executive Officer

Claude Belleville
Vice President, Medical Devices

Gaétan Duplain
Vice President, Oil and Gas

Steven G. Arless
Director

Jean Lavigueur
Director

Denis M. Sirois
Director

OFFICERS

Louis Laflamme, CPA, CA
President, Chief Executive Officer

Claude Belleville
Vice President, Medical Devices

Gaétan Duplain
Vice President Oil and Gas

Thierry Dumas, CPA, CA
Chief Financial Officer, Corporate Secretary

Tom J. Keegan
President, Opsens Solutions Inc.

CORPORATE INFORMATION

HEAD OFFICE

2014 Cyrille-Duquet St., Suite 125
Quebec City, QC G1N 4N6

Phone: 1 418 682-9996
Fax: 1 418 682-9939

OPSENS SOLUTIONS

7019 – 68th avenue NW
Edmonton, AB T6B 3E3

Phone: 1 780 930-1777
Fax: 1 780 930-2077

Website: www.opsens.com

INVESTOR RELATIONS

For information about Opsens Inc. or to be placed on the mailing list for quarterly reports and news releases, contact Marie-Claude Poitras at the head office or marie-claude.poitras@opsens.com.

AUDITORS

Deloitte, s.e.n.c.r.l.
Quebec, QC

STOCK EXCHANGE LISTING

Toronto Venture Exchange

Symbol: OPS

Shares outstanding: 47,865,983 (as at August 31, 2013)

Transfer Agent & Registrar
Canadian Stock Transfer Company Inc. (CST)
320 Bay Street
B1 Level
Banking Hall
Toronto, ON M5H 4A6

1-800-387-0825

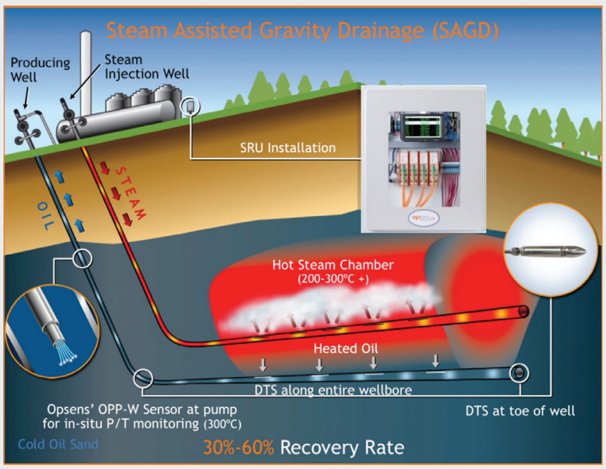
ANNUAL MEETING OF SHAREHOLDERS

Monday, January 20, 2014
10:30 a.m.
Alt Hotel, Quebec, Mezzanine

OIL AND GAS

Opsens offers integrated services for the management of reservoirs and in situ environments to the oil and gas market. Its primary focus is Western Canada's oil sands market, where a growing demand to measure pressure and temperature is identified. There is a large number of active in situ oil sands projects in Alberta, and the majority of oil and gas companies are involved.

Steam assisted gravity drainage (SAGD) is the most common process for developing in situ reserves. In SAGD, recovery rates are typically between 30% and 60%. To optimize production and recovery rates, operators need data on temperature/pressure below the surface directly from the injecting and producer wells. Opsens' OPP-W sensor has demonstrated its ability to meet this need by its real-time continuous measurement of pressure and temperature.



MEDICAL INSTRUMENTATION

Based on its patented fiber optic sensor, Opsens has developed the OptoWire, a guidewire to measure Fractional Flow Reserve ("FFR"), a procedure increasingly used in interventional cardiology to guide treatment of coronary blockages. Two major studies on the practice of FFR concluded that treatment guided by this procedure reduces patient mortality by 30% and reduces costs.

The market has been growing at a compounded annual rate of 43% over the past four years and it is expected to surpass US$1-billion annually in the future.

Two players share the market today with guidewires instrumented with conventional sensors. Opsens plans to become a key player in this market, the first one with a guidewire instrumented with a fiber optic sensor. Opsens has integrated its patented miniature fiber optic pressure sensor into its OptoWire for a unique and effective guidewire designed to facilitate navigation through the human body to easily reach lesions. In addition, our optical sensor is immune to fluids (blood) and will allow physicians to connect the guidewire multiple times while maintaining reliability of the measurement.

OPSENS' OPTOWIRE HAS COMPLETED MOST OF THE DESIGN VALIDATION PHASE.

Opsens has signed its first distribution agreement for Japan, Korea and Taiwan.

Opsens plans the first in-man study in early 2014.

In 2014, Opsens plans on filing for regulatory clearance in the United States, Japan, and Europe.

Completion of the clearance process is the ultimate step before market launch.

PRODUCTS AT WORK

MEDICAL DEVICES – OPTOWIRE

Development of our first complete medical device for the measurement of FFR

Picture: Animal study performed at AccelLab GLP facilities in Montreal (Canada) by Dr. Olivier Bertrand and members of Opsens' team.

OIL AND GAS

Helping operators optimize production in the Western Canadian oil sands.

LABORATORIES AND SCIENTIFIC R&D

Ensuring measurement for high-tech applications.

opSens

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