2017 Quarterly Report

January, February, March

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Message from the President and Chief Executive Officer

Dear Shareholders,

The first quarter of 2017 delivered all-time highs for TSO_3 in revenue, shipments and installations. Training took place at multiple locations throughout GETINGE's network of global operations and tangible progress took place within the Company's GI initiative. All-in-all a very good start to the year.

In the quarter we shipped 36 STERIZONE® VP4 sterilizers to Getinge Infection Control. While this is excellent, the real reward was to see an increased flow of shipments from Getinge's inventory to its end customers in the US, Canada and Europe. While we cannot disclose details of their business, the rate of installations had a significant up-tick during the first quarter and the end-user hospital list continues to add significant reference institutions.

Sales training during the quarter included both product and sales training at the initial and, in some cases, advanced levels. Getinge Europe, Middle East and Africa (EMEA), as well as Asia Pacific (APAC) regions participated.

As a reminder, the Company's technology targets two distinct markets segments; that of supporting hospitals in the delivery of sterile instruments directed at the surgical suite, and that of enabling a transformational shift in process effectiveness by elevating the reprocessing practice in the GI market segment. To date, our primary commercial progress has taken place in the support of delivering sterile instruments to the surgical suite.

In support of our GI initiative, during the first quarter of 2017 the Company completed tests required to demonstrate that the STERIZONE® VP4 sterilizer can effectively terminally sterilize multi-channeled flexible endoscopes having an elevator guide mechanism as part of their design. This data enables us to support our sterilizer's use for these devices in the Canadian and European market. Our plans for the US have been previously outlined and include developing additional data for device OEM's to support adding the STERIZONE® VP4 sterilizer to their labeling. The Company continues to direct its resources toward making these claims a 2017 event.

As the Company continues to demonstrate the effectiveness of our superior sterilizing technology, we also remain focused on creating solutions to enable longer life of instruments routinely sterilized in our technology. This is particularly important in the GI segment, as these devices were designed for reprocessing in a less robust high level disinfection process. The Company made strong progress on this front in the quarter, with practical solutions that lower potential repair costs and thereby increase the attractiveness of our technology.

So, with this progress in-hand and the data that documents our superior solution, we are engaging in the national dialogue and are directing our science at the problem of under reprocessed devices -- and the fact that we have a viable solution. Recently, the Company announced that our innovative method to document sterilization of these complex medical devices was accepted for publication in the peer reviewed journal: the Canadian Journal of Infection Control. We have also taken steps to officially communicate with State and Federal lawmakers specifically the US Senate Committee on Health, Education, Labor and Pensions (HELP) to educate on our viable solution to the current concerns of under reprocessed devices.

This said, it is clear that healthcare facilities are not simply waiting for the laws to change to drive improvement in process. I am pleased to say that the Company is currently responding to a number of healthcare facilities requesting that we assist in their desire to change processes and to move from the less robust high level disinfection of complex multi-channeled flexible endoscopes to a terminal sterilization process. These requests have come from the US, Europe and Canada. Each is being followed through very carefully as this is truly defining a new standard for the industry. I am particularly pleased to say that we are working with the largest facility in Western Canada and have agreed to open the first dedicated GI facility where all ERCP scopes will be terminally sterilized using the STERIZONE® VP4 process. The information gathered form this work will impact decisions in the

Province, the Country and the Global healthcare community. It is only fitting that this technology, with our Canadian roots, will now see its clinical significance demonstrated in the same country. Obviously more details will be shared as we progress.

So, we are making great progress in both the sterilization of devices for the surgical suite and ground breaking practices in the GI market segment. Our resources are dedicated to supporting our growth and maximizing the value of the technology in our customer locations. We continue to expect big progress this year!

Again, my thanks to the dedicated employees, our Board and you the owners of this Company for your continued support .

R.M. (Ric) Rumble

Overview

General Description

TSO_3 Inc. was founded in June 1998 in Québec City, Canada and employs 77 people as of March 31, 2017. The Company's activities encompass the sale, production, maintenance, research, development and licensing of sterilization processes, related consumable supplies and accessories for medical devices that are sensitive to heat and moisture. The Company designs products for sterile processing areas in medical facilities that offer an advantageous replacement solution to other low temperature sterilization and high level disinfection processes currently used. TSO_3 also offers services related to the maintenance of sterilization equipment and compatibility testing of medical devices with such processes.

TSO_3 Corporation, the Company's wholly-owned subsidiary incorporated in 2015, is located in the State of South Carolina, USA and was established to meet US customer requirements. The US represents approximately 40% of the worldwide market for low-temperature sterilization equipment. The US location is or will be used for administration, engineering, warehousing and distribution of parts and consumables, laboratory services, conducting light assembly, and providing service and education to US customers.

Technology

TSO_3's principal product is the STERIZONE® VP4 Sterilizer. The STERIZONE® VP4 Sterilizer is a dual sterilant, low temperature sterilization system that utilizes vaporized hydrogen peroxide (H_2O_2) and ozone (O_3) as its sterilants. It is a product which evolved from the Company's STERIZONE® 125L+ Sterilizer, which was originally licensed by Health Canada in 2009, CE marked in 2010 and of which the Company subsequently sold a number of units in Canada. These initial units have been in continuous operation for a number of years.

In December 2014, TSO_3 achieved a major milestone when its STERIZONE® VP4 Sterilizer received 510(k) clearance from the Food and Drug Administration (FDA). In October 2015, the STERIZONE® VP4 Sterilizer received clearance from Health Canada (Canadian equivalent of the United States FDA) to sell the STERIZONE® VP4 Sterilizer with extended claims associated with multi-channel flexible endoscopes in the Canadian market and on July 4, 2016, TSO_3 announced that the FDA had also cleared TSO_3's expanded indications for use (IFU's) of its STERIZONE® VP4 Sterilizer relating to certain multi-channel flexible endoscopes of up to 3.5 meters in length and four or fewer channels.

Regulatory clearance of the additional claims represents an entirely new level of patient protection against ineffective device reprocessing resulting from the use of less robust disinfecting systems, particularly for flexible endoscopes. These extended claims further expand the Company's technology leadership – offering enhanced patient protection in applications where terminal sterilization was not previously possible. The extended IFU claims cleared by the FDA demonstrate the truly superior capabilities of the STERIZONE® Sterilization System.

The STERIZONE® Sterilization System has now achieved a number of industry-firsts:

- First and only dual-sterilant sterilizer cleared by the FDA for sale in the US;
- First single cycle, low-temperature sterilizer cleared in the US, Europe and Canada to process a 75-pound load of general instruments, single channel flexible endoscopes, and rigid and semi-rigid channeled devices;

- First low temperature sterilizer validated and cleared in the US, Europe and Canada to sterilize multi-channeled endoscopes (with four or fewer channels) up to 3.5 metres in length such as video colonoscopes and gastroscopes, along with duodenoscopes in Europe and Canada;
- First low-temperature sterilizer with a load-sensitive *Dynamic Sterilant Delivery System*™;
- First documented "wet" cycle with validated micro-condensation sterilant layer;
- First Biological Indicator Test Pack to survive past the first half-cycle.

As these technologies and claims are unique in the industry and significantly superior to incumbent technologies, the STERIZONE® Sterilization System can significantly improve efficiency, cost, risk mitigation and throughput in traditional central sterilization reprocessing departments in hospitals.

TSO_3's technologies also allow an industry first in terminal medical device sterilization: medical facilities now have an opportunity to terminally sterilize complex medical instruments such as colonoscopes, gastroscopes and other multi-channel flexible scopes, which previously could only be treated in a less effective process known as "high-level disinfection". Low temperature sterilization with the STERIZONE® VP4 Sterilizer offers a more effective solution than disinfection, since it involves a proprietary physical and chemical process that destroys all types of microbiological organisms, including bacterial spores.

The expanded claims now cleared for the STERIZONE® VP4 Sterilizer correspond to increasing scrutiny by regulatory authorities over medical device reprocessing, particularly for colonoscopes and other complex medical devices used during minimally invasive surgical (MIS) and endoscopic procedures. Much of this concern stems from patient-to-patient transfer of multidrug resistant bacteria that are not inactivated by high-level disinfection. Published reports confirm the significant health risk of device-related transfer of antibiotic resistant microbes, including patient injury or death.

TSO_3 has established laboratory data validating the STERIZONE® VP4 Sterilizer, with its dual sterilants of hydrogen peroxide and ozone, can repeatedly sterilize the Olympus TJF-Q180V Duodenoscope, the industry's leading brand and model of duodenoscope. This breakthrough comes at a critical time, with the growing use of duodenoscopes, along with the increasing number of adverse incidents related to ineffectual reprocessing. This specific model of duodenoscope is currently cleared only in the Canadian and European markets and the Company is currently performing testing on certain duodenoscopes for submission to the FDA in the US.

Business Environment and the Market Drivers

Sterile reprocessing of medical devices is essential to ensure positive surgical outcomes. The use of non-sterile surgical instruments contributes to increased infection rates and, in turn, leads to increased patient hospital stays, higher cost of care and greater mortality rates.

The world population is aging, with the fastest growing segment age 65+ expected to nearly double by 2020 from 2010, according to the United Nations. This aging population is expected to result in increasing demand for diagnostic procedures and surgical operations involving scopes and MIS devices, and thereby increase demand for efficacious and high-throughput sterilization methods that can process such devices, such as low temperature terminal sterilization systems.

Today, it is not uncommon to find sterile reprocessing of instruments conducted in three areas of a hospital: the central sterile department (CS), the sub-sterile area of the operating room (OR), and the gastroenterology department (GI).

Why Low Temperature Sterile Reprocessing

While some medical instruments are designed for single use, the majority must be reprocessed between surgical cases and therefore need to be compatible with the sterilization process used. Traditionally, steam was used to sterilize surgical instruments.

Today's surgical suite is very different from operating rooms of the past. Currently, the trend continues towards the practice of MIS. Devices used in MIS are complex, expensive and delicate, and in most cases, do not tolerate the steam sterilization process. Instead, they require low-temperature sterilization. These high-demands, complex devices represent a major financial investment for hospitals as well as a challenge to sterilize.

Disinfection is significantly less effective than sterilization because it does not necessarily kill all harmful microorganisms, especially bacterial spores. Low temperature terminal sterilization offers a more effective solution, since it involves a proprietary physical and chemical process that thoroughly destroys all types of microbiological organisms with a sterility assurance level of 10^{-6} (SAL^{-6}).

Competitive Landscape

The Company competes in an industry characterized by both multinational and regional companies that market sterilization technologies. The main players in this space are Getinge AB, STERIS Corporation, Johnson & Johnson, 3M Company, Cantel Medical Inc., Olympus Corporation, Custom Ultrasonics Inc. and Belimed AG.

The low-temperature vapour sterilization methods most commonly used today are hydrogen peroxide (H_2O_2) sterilization systems. These methods offer "terminal sterilization" referring to the instruments being packaged and therefore, remaining sterile until opened at the surgical site. Current H_2O_2 sterilization methods are fast, however they are very expensive to operate, and have limits as to efficacy and loading capacity based on their design.

Another method that played a role in a sub-segment of low temperature reprocessing was that of liquid chemical sterilization processes. This type of process was used directly in the OR as a just-in-time method to complement the CS department's sterile production. The GI department remains a heavy user of liquid chemical systems. These systems are under increased scrutiny due to identified cases of patient to patient cross contamination of multidrug resistant bacteria.

Each of these sterilization methods offers benefits to the customers, but none is a complete solution matching the customer need for high and cost effective throughput of complex and expensive medical devices. Customers must purchase and support a combination of products to meet their daily requirements for sterile instruments. TSO_3 technology brings its customers closer to a complete solution, and the extended claims cleared by the FDA demonstrate the truly superior capabilities of the STERIZONE® Sterilization System.

First Quarter 2017 and Recent Activities

Board of Directors

In February 2017, Dr. Linda Rosenstock and Mr. Jeffrey Pompeo joined TSO_3's board of directors. Dr. Rosenstock is a well-recognized physician executive in academia and government, with broad experience in clinical care, health care delivery, population health, research and health and regulatory policy. She is Dean Emeritus, UCLA Fielding School of Public Health and is currently Professor of Health Policy and Management, Environmental Health Sciences and Medicine at UCLA. Dr. Rosenstock is the former Director of the National Institute for Occupational Safety and Health (NIOSH) and serves on a number of publicly traded and private corporate and non-profit boards of directors in the medical field. She received her M.D. and M.P.H. from The Johns Hopkins University and is a recipient of the Presidential Distinguished Executive Rank Award, the highest executive service award in the US Government.

Mr. Pompeo brings over 25 years of experience in high-growth medical device and technology companies. He has lead several technology-driven businesses from inception through commercialization, and is well versed in strategic planning, business development, operational execution, and regulatory strategies in the United States and globally. Mr. Pompeo is currently President and Chief Executive Officer of CareTaker Medical Corporation, a privately held wireless patient monitoring medical device company headquartered in the United States, and has served in senior executive and board director positions in numerous multinational organizations. He holds a Computer Information Systems degree from James Madison University and an M.B.A. from Virginia Tech's Pamplin College of Business.

These appointments add significant and relevant US medical practice, regulatory and business development skills to the Company independent board.

Regulatory Status

In March 2016, the Company received FDA 510(k) clearance for a universal design of its STERIZONE® VP4 Sterilizer. The STERIZONE® VP4 Sterilizer was originally cleared for commercialization in the US in December 2014. The new clearance enables the Company to streamline assembly and shipping around a single sterilizer platform that meets global regulations for electromechanical design. The Company has now harmonized production around a single design, reducing inventory costs and complexity, while improving production rates and efficiency.

On July 4, 2016, TSO_3 announced that the FDA had also cleared TSO_3's expanded IFU's of its STERIZONE® VP4 Sterilizer relating to certain multi-channel flexible endoscopes of up to 3.5 meters in length and four or fewer channels. Regulatory clearance of the additional claims represents an entirely new level of patient protection against ineffective device reprocessing resulting from the use of less robust disinfecting systems, particularly for flexible endoscopes. These extended claims further expand the Company technology leadership – offering enhanced patient protection in applications where terminal sterilization was not previously possible.

The expanded claims now cleared for the STERIZONE® VP4 Sterilizer correspond to increasing scrutiny by regulatory authorities over medical device reprocessing, particularly for colonoscopes and other complex medical devices used during MIS procedures. Disinfection is significantly less effective than sterilization because it does not necessarily kill all harmful microorganisms, especially bacterial spores. Low temperature terminal sterilization with the STERIZONE® VP4 Sterilizer offers a more effective solution, since it involves a proprietary physical and chemical process that thoroughly destroys all types of microbiological organisms with a sterility assurance level of 10^{-6} (SAL^{-6}). Further, the evidence TSO_3 has provided to the FDA confirms that the STERIZONE® VP4 Sterilizer can terminally sterilize multi-channeled flexible endoscopes (with a maximum of four channels) having internal lumens of ≥ 1.45 mm in inner diameter and ≤ 3,500 mm in overall length, and ≥ 1.2 mm in inner diameter and ≤ 1,955 mm in overall length, which are commonly found in video colonoscopes and gastroscopes - an industry first for any medical device sterilization process.

Commercial Activities

On November 25, 2015, TSO_3 and Getinge Infection Control AB ("Getinge"), a global leader in infection control solutions, entered into an agreement ("the Getinge Agreement") which granted Getinge exclusive global distributor rights to TSO_3's STERIZONE® VP4 Sterilizer in exchange for $7.5 million plus performance minimums.

In association with the Getinge Agreement, TSO_3 received initial purchase orders from Getinge in December 2015, and shipped 110 associated STERIZONE® VP4 Sterilizers and related accessories throughout 2016. These shipments supplied Getinge with sterilizers for sale to end users, and allowed the Company to establish higher volume production, production capacities, purchasing methodologies and supply chain structures. Throughout the year, the Company produced and shipped these 110 units, achieved cost reductions and found opportunities for additional cost improvements. In December 2016, TSO_3 announced that it had received a purchase order for a significant number of

STERIZONE® VP4 Sterilizers in 2017 – again providing the Company a degree of operational and supply chain predictability for 2017. The Company shipped an additional 36 STERIZONE® VP4 Sterilizers to Getinge in the first quarter of 2017 in partial fulfillment of these orders.

The performance requirements of Getinge Agreement are multi-year and based on a formula for minimum unit shipments, with minimum annual commitments reaching in excess of 10% of the estimated annual global replacement market by the end of the first five years of the agreement. Sales under the Getinge Agreement are made in US dollars to Getinge, who will be the Company only customer for the STERIZONE® VP4 Sterilizer while the Getinge Agreement is in force. Getinge will also receive ongoing technical support from TSO_3 as part of the Getinge Agreement.

The exclusive partnership with a top global provider of infection control devices and services represents an endorsement of the STERIZONE® Sterilization System to sterilize the most challenging loads and complex devices used in healthcare today. Getinge is actively selling and installing the STERIZONE® VP4 Sterilizers into US hospitals and initial feedback from end customers has been strong.

Strategic Partnership Program

During 2016, TSO_3 also signed with a number of leading healthcare institutions under its Strategic Partnership Program - a program where healthcare institutions work with TSO_3 to study the impact of the Company's industry changing technology on traditional sterilization practices and the processes to enable the routine terminal sterilization of multi-channel flexible endoscopes. Contracts have been signed with the Mount Sinai Hospital of New York, the Highland Hospital of Rochester, NY which is part of UR Medicine (the University of Rochester's clinical enterprise) and the Medical University of South Carolina. TSO_3 will continue to work toward adding key healthcare leaders to this important program to help improve existing sterilization practices to reduce infections and improve patient safety.

Supply Chain Financing

In December 2016, TSO_3 secured access to an automated receivable factoring program through a joint effort with Getinge and a Getinge global banking partner. This program provides a simple and inexpensive instrument for Getinge and TSO_3 to finance working capital. Under this program, TSO_3 may at any time factor (sell to the bank) up to 100% of the outstanding receivables that Getinge posts to the program in exchange for a small discount.

Getinge currently represents substantially all of TSO_3's revenue and trade accounts receivable. Payment terms for invoices Getinge posts to this program are 90 days from invoice date, rather than standard 45 day terms. There are no bank setup fees associated with this program and TSO_3 has full independent discretion as to whether it shall or shall not factor any or all posted receivables.

TSO_3 has used the program during the first quarter of 2017.

European Expansion

In 2016, in support of a planned European product launch in the first quarter of 2017, TSO_3 completed development of a double door or "pass-through" option for the STERIZONE® VP4 Sterilizer. Pass-through systems are highly desirable in certain sterilization department designs where a wall separates dirty from clean and clean from sterile inventory – an approach favoured by many European hospitals. While the double door option is less popular in the US, the Company plans to pursue clearance to sell the device in the US in the ordinary course.

In addition to completing the double door development, the Company initiated studies in France in support of obtaining Prion inactivation claims for that market. Prions are implicated in diseases such as transmissible spongiform encephalopathies which cause bovine spongiform encephalopathy (BSE), frequently referred to as "mad cow disease". TSO_3 is conducting tests using the "standard protocol for prions" (PSP), a protocol established by the French regulatory agency ANSM (formerly referred to Afssaps). Initial studies conducted in France indicate that the STERIZONE® VP4 Sterilizer is effective

under *in vitro* conditions. The study now extends to include additional *in vitro* and *in vivo* testing. Prion inactivation claims are required in the French market when medical devices are used in selected "high risk" surgeries such as neurological and ophthalmic procedures.

Intellectual Property

Considering the time and investment required to develop new products and obtain marketing authorization, the Company places considerable importance on protecting its research findings, trade secrets and technologies. As of December 31, 2016, TSO_3 had 99 global patents or patent applications pending, with 47 relating specifically to the Company's STERIZONE® VP4 Sterilizer and related technology. TSO_3 relies on a combination of patents, laws, trade secrets, non-disclosure agreements and various contractual arrangements to protect its exclusive technology. Despite the effort, nothing can guarantee that TSO_3's protective measures are enforceable or sufficient to prevent illicit appropriation of its technology or development of the same or similar technology by a third party.

On September 29, 2010, TSO_3 filed patent applications for its innovations related to hydrogen peroxide alone and hydrogen peroxide and ozone sterilization systems and methods to be protected in the United States, Europe and various other countries including Japan.

During the first quarter of 2013, and in 2015, TSO_3 filed a number of divisional patent applications in all of the countries mentioned above to protect most of individual innovative concepts disclosed in the original application. Several patents on technology embedded in the STERIZONE® Sterilization System have now been granted while the other applications are still pending.

In September 2014, TSO_3 filed a new International patent application on its innovative methods to further improve compatibility under differing load conditions for surgical instruments and accessories.

In 2015, the US Patent Office and the Canadian Patent Office each granted to the Company a first patent on a core aspect of the technology embedded in the TSO_3 STERIZONE® Sterilization System. Also in 2015, six additional Japanese patents have been granted (seven granted patents) while the European Patent Office notified its decision to grant two additional patents (seven granted patents in force in up to 13 European countries).

At the end of 2015, TSO_3 also filed new US and international patent applications related to biological indicators (BI) used to monitor effectiveness of a sterilization process.

In 2016, the US Patent Office granted to the Company six additional patents covering important aspects of TSO_3's technology and mostly embedded in the STERIZONE® VP4 Sterilizer.

Also in 2016:

- TSO_3 filed new divisional patent applications covering additional critical aspects of TSO_3's technology in US and Europe to still strengthen patent protection of the STERIZONE® Sterilization System;
- A first patent covering the technology embedded in the STERIZONE® VP4 Sterilizer has been granted in Mexico to further expand the geographical patent protection coverage of the Company;
- An International Patent Application previously filed on innovative methods to further improve compatibility under differing load conditions has now entered the national phase in several countries, including the United States.

During the first quarter of 2017, the Company has been notified by the Canadian Patent Office of its decision to grant a second and a third additional patent covering important aspects of TSO_3's technology while a second patent has been granted in Mexico.

In connection with the international patent application filed in 2015 and related to biological indicators (BI) used to monitor effectiveness of a sterilization process, the Company received a Preliminary International Examination Report stating that all the submitted claims are considered patentable.

Other patent applications are still pending in the United States as well as elsewhere in the world. TSO_3's unique *Dynamic Sterilant Delivery System*™ is core to the differentiation of its products and its protection enhances the Company's value.

Trademarks are important assets of the Company. STERIZONE® is a registered trademark of TSO_3 in the United States, Canada and Europe while STERIZONE TECHNOLOGY® is registered in the name of TSO_3 in not less than 43 countries.

2017 Focus

In 2017, TSO_3 will continue to focus its resources to help Getinge achieve the performance objectives outlined in the Getinge Agreement. To this end, TSO_3 will conduct training and sales meetings and further invest in marketing and sales collateral in support of the deployment of the STERIZONE® VP4 Sterilizers in the traditional low temperature sterilization market in the United States and Europe, and will continue to work collaboratively with Getinge with respect to launching into additional targeted international markets.

Additionally, the Company will expand use of its existing laboratory in Québec and its new laboratory in South Carolina in support of its traditional device compatibility testing, endoscope compatibility testing and new product development. Such efforts will help the Company demonstrate its technology and educate Getinge and hospitals the impact its technologies can have on reprocessing efficiency, effectiveness, throughput and simplicity, as well as endoscope terminal sterilization.

Lastly, the Company will experience additional demand for consumables and warranty and service related activities, relative to prior years, as more of the Company's STERIZONE® VP4 Sterilizers are installed in hospitals and other medical facilities. The Company will continue to expand its consumables production and delivery capabilities in Canada, the United States and in Europe.

The rate of sterilizer deployment into end customers is variable as new technology adoption, equipment replacement and installation cycles in hospitals are difficult to predict. Following the cleared expanded indications for use of its STERIZONE® VP4 Sterilizer and the recent installations of the device in hospitals, the Company expects accelerated sterilizer deployments to come in the coming months.

The Company continues to target a filing with the FDA to include multi-channeled flexible endoscopes containing guide wire mechanisms, such as duodenoscopes, with the anticipation of a 2017 clearance for such devices. TSO_3 also continues to develop new products in the sterile reprocessing market such as the STERIZONE® 80L Sterilizer, a configuration of the STERIZONE® Technology with an 80 litre chamber size.

Management Discussion and Analysis

This management discussion and analysis (MD&A) is intended to help readers assess the consolidated financial position and consolidated financial performance of TSO_3 Inc. ("TSO_3", or the "Company") for the three-month period ended March 31, 2017 and to compare them with the three-month period ended March 31, 2016. This information is dated May 9, 2017 and should be read in conjunction with the Interim Condensed Consolidated Unaudited Financial Statements and the accompanying notes. Unless specified otherwise, all amounts are stated in US dollars.

The financial information contained in this MD&A and in the Interim Condensed Consolidated Unaudited Financial Statements has been prepared in accordance with the International Financial Reporting Standards ("IFRS"). The Company occasionally refers to non-IFRS financial measures in the MD&A. See the Non-IFRS financial measures section for more information.

The Interim Condensed Consolidated Unaudited Financial Statements, accompanying notes and MD&A have been reviewed by the Audit and Risk Management Committee of TSO_3 and approved by the Board of Directors.

This MD&A contains forward-looking information. A statement about the forward-looking information is made in the next section. Also, the reader should review the section on Risk Factors discussing some of the risks and uncertainties that may have a material adverse effect on the Company's business, results of operations, or financial condition as well as on an investment in the Company's securities.

Additional information regarding TSO_3 can be found in its Annual Information Form, and under TSO_3's issuer profile on SEDAR at (www.sedar.com) and TSO_3's website at www.tso3.com.

Forward Looking Statements

Certain statements contained in this report and the MD&A constitute forward-looking statements. These statements relate to future events or the Company's future performance, business prospects or opportunities and product development. All statements other than statements of historical facts may be forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "plan", "continue", "estimate", "expect, "may", "will", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe" and similar expressions. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements.

The Company believes that the expectations reflected in these forward-looking statements are reasonable, but no assurance can be given that these expectations will prove to be correct. These statements speak only as of the date of this report. Such statements are based on a number of assumptions which may prove to be incorrect, including, but not limited to, assumptions about:

- Business and economic conditions;
- The ability to obtain sufficient quantities of supplies and materials when needed;
- The ability to obtain regulatory authorizations that are required to market its product;
- The ability to attract and retain skilled staff;
- Regulatory Approvals; Market competition; Tax benefits and tax rates;
- The ability to complete research and development work;
- The ability for the Company to market its products;
- The success of the relationship with Getinge and suppliers;
- The ability for Getinge to deploy TSO_3's products to end customers;
- Foreign currency exchange rates;
- The ability for the Company to attract capital and other financial risks
- The compatibility of medical instruments with the Company's technology.

These forward-looking statements involve risks and uncertainties relating to, among other things, commercial operations, compatibility, biocompatibility, research and development projects, dependency on key personnel, management of business growth, intellectual property and counterfeiting, competition, product liability issues, litigation, regulatory approvals and financial instruments. Actual results and developments are likely to differ, and may differ materially, from those expressed or implied by the forward-looking statements. Factors that could cause actual results to differ materially include, but are not limited to, the risk factors described under the section "Risk factors" in the Annual MD&A of the Company for the year ended December 31, 2016, which reflect to the Company's knowledge, the material risks and uncertainties it faced as at March 31, 2017.

Investors should not place undue reliance on forward-looking statements as the plans, intentions or expectations upon which they are based might not occur. The Company cautions that the foregoing list of risk factors is not exhaustive. Investors and others who base themselves on the Company's forward-looking statements should carefully consider the above factors as well as the uncertainties they represent and the risk they entail. The reader must not unduly rely upon the Company's prospective statements.

Further, the Company does not intend, and does not assume any obligation, to update these forward looking statements, except as may be required by applicable laws.

Summary of Results

Periods ended March 31 (Unaudited, IFRS Basis, in thousands of US dollars, except per share amounts)

	First Quarter	
	2017	2016
	$	$
Revenues	**4,211**	3,071
Cost of sales	**2,641**	1,961
Gross profit	**1,570**	1,110
Expenses		
Research and development	**1,353**	606
Selling, general and administrative	**2,209**	1,385
Financial expenses (income)	**(39)**	(1,588)
Total Expenses	**3,523**	403
Net income (loss) before income taxes	**(1,953)**	707
Income taxes	**27**	58
Net income and comprehensive income (loss)	**(1,980)**	649
Weighted average number of outstanding shares (in thousands)	**91,995**	88,552
Basic and diluted net income (loss) per share (in $)	**(0.02)**	0.01
Basic and diluted net comprehensive loss per share (in $)	**(0.02)**	0.01

Results Analysis

Below, the Company discusses the variations of certain accounts within the first quarter of 2017 and 2016.

All dollar amounts are in **US Dollars** unless otherwise noted.

REVENUES

For the first quarter of 2017, revenues equalled $4.2 million, as compared to $3.1 million in the first quarter of 2016. TSO_3 shipped 36 STERIZONE® VP4 Sterilizers to Getinge and recorded $0.2 million of Getinge licensing revenue in the first quarter of 2017, as compared to 25 units shipped and $0.1 million of licensing revenue in the same period of 2016. Sales of the Company's proprietary consumables in the first quarter of 2017 also contributed to the Company's total revenue growth relative to the same period of 2016, reflecting increased installations of its STERIZONE® VP4 Sterilizers in medical facilities in North America.

NET INCOME (NET LOSS)

In the first quarter of 2017, net loss and comprehensive loss totaled $2.0 million or ($0.02) per share, as compared to a net loss of $0.9 million, or ($0.01) per share in the first quarter of 2016 when excluding the $1.6 million non-recurring foreign exchange translation gain recorded as a result of the conversion of Canadian dollars into US dollars during the first quarter of 2016. Including the one-time foreign exchange gain, the Company's net income in the first quarter of 2016 was $0.6 million, or $0.01 per share.

In 2017, the Company increased gross profit by $0.5 million, or 1% of revenue, mainly from unit sales of the STERIZONE® VP4 Sterilizer which offset the increase of investments of $0.7 million made in research and development activities, $0.4 million in sales and marketing as well as $0.4 million in administrative activities to support the business.

$0.4 million of the year over year increase in costs in research and development and sales general and administrative expenses and other costs resulted from growth in recorded non-cash stock compensation expense. For the quarter ended March 31, 2017, non-cash share-based compensation expense amounted to $0.6 million, as compared to $0.2 million for the same period in 2016. Share-based compensation amortization grew as the Company issued stock options to new and existing employees. Also, as a result of the price of TSO_3 stock being higher at the time of grant than in prior periods, the Black-Scholes value of each option, which is the basis on which the company calculates stock compensation expense, was higher.

For the first quarter of 2017, the Company incurred no material events which would have impacted its comprehensive gain or loss.

Supplemental Non-IFRS Financial Measures

This MD&A was prepared using results and financial information determined under IFRS. In addition to IFRS financial measures, management uses non-IFRS financial measures to assess the Company's operational performance. It is likely that the non-IFRS financial measures used by the Company will not be comparable to similar measures reported by other issuers or those used by financial analysts as their measures may have different definitions. The measures used by the Company are intended to provide additional information and should not be considered in isolation or as a substitute for IFRS financial performance measures.

Generally, a non-IFRS financial measure is a numerical measure of an entity's historical or future financial performance, financial position or cash flows that is neither calculated nor recognized under IFRS. Management believes that such non-IFRS financial measures are important as they provide users of the financial statements with a better understanding of the results of the Company's recurring operations and their related trends, while increasing transparency and clarity into its operating results. Management also believes these measures can be useful in assessing the Company's capacity to discharge its financial obligations.

In 2016, management began assessing its operational performance using supplemental non-IFRS statement of income which removes typically one-time unusual items that do not reflect the recurring

and ongoing operational results and trends. The results of the associated adjustments in 2016 included the removal of a one-time expense associated with a commitment to purchase of raw materials made in the year but made obsolete by improvements in installation alternatives in response to feedback from end customers, and a one-time foreign exchange gain recorded in the first quarter of 2016, which resulted in the calculation of adjusted gross profit, adjusted EBITDA and adjusted net income.

IFRS AND NON-IFRS COMPARISON

	2017	2016							
$000's	Q1 IFRS	Q1 IFRS	Adjust-ments[1]	Q1 Non-IFRS	Q2 IFRS	Q3 IFRS	Q4 IFRS	Adjust-ments[1]	Q4 Non-IFRS
Revenues	4,211	3,071	-	3,071	2,977	3,507	3,746	-	3,746
Cost of Goods Sold	2,641	1,961	-	1,961	2,143	2,368	2,716	(312)	2,404
Gross Profit	1,570	1,110	-	1,110	834	1,139	1,030	(312)	1,341
Gross Margin	37%	36%	-	36%	28%	32%	28%	(8%)	36%
R&D	1,353	606	-	606	803	806	1,297	-	1,297
SGA	2,209	1,385	-	1,385	1,529	1,841	1,774	-	1,774
Financial	(39)	(1,588)	1,578	(10)	-	(50)	(21)	-	(21)
Net Income (loss) before tax	(1,953)	707	(1,578)	(871)	(1,499)	(1,458)	(2,020)	(312)	(1,708)
Tax	27	58	-	58	(12)	15	48	-	48
Net Income (loss)	(1,980)	649	(1,578)	(929)	(1,487)	(1,473)	(2,068)	(312)	(1,756)
Net Income (loss) per share	(0.02)	0.01	(0.02)	(0.01)	(0.02)	(0.02)	(0.02)	0.00	(0.02)
Adjusted Ebitda	(1,176)	1,000	(1,578)	(578)	(1,128)	(977)	(1,614)	(312)	(1,302)

[1] Refer to the Non-IFRS financial measures.

Non-IFRS cost of goods sold, non-IFRS gross profit and non-IFRS gross margin were impacted in Q4-2016 by a one-time write-off of inventory of $0.3 million associated with a commitment to purchase of raw materials made in the year, but made obsolete by improvements in installation alternatives in response to feedback from end customers.

Non-IFRS financial income in Q1-2016 was impacted by the one-time foreign exchange gain realized of $1.6 million following the change in functional currency from Canadian dollars to US dollars.

Adjusted EBITDA, is adjusted Earnings before Interest, Taxes, Depreciation, and Amortization (Adjusted EBITDA). Adjusted EBITDA adjusts net income for (1) significant realized and unrealized foreign exchange gains or losses, (2) amortization and depreciation expenses (3) share-based compensation expense, (4) amortization or write-downs of certain tangible and intangible assets, (5) one-time write-off of inventory, (6) income taxes, and (7) other significant unusual items.

EXPENSES

Foreign Exchange Impact

Effective January 1, 2016, the Company changed its functional and reporting currency from Canadian dollars (CAD) to US dollars (USD) as the significant majority of its current and future revenues are and are expected to be denominated in US dollars.

The majority of the Company's expenses in 2017 are denominated in Canadian dollars. Fluctuations in the value of Canadian dollars relative to US dollars will have an impact on the Company's operating results as expenditures in Canadian dollars are not offset by revenues in the same currency.

In the first quarter of 2017, total expenses denominated in Canadian dollars were CAD$4.1 million, as compared CAD$3.4 million in the first quarter in 2016. The average USD/CAD foreign exchange rate in the first quarter of 2017 was 0.7559 as compared to 0.7398 in the first quarter of 2016, which is reflected in an increase in expenses of 2% year over year upon conversion to USD.

From a quarterly sequential perspective, the USD/CAD foreign exchange rate in the first quarter of 2017 was 0.7559, as compared to 0.7494 in the fourth quarter of 2016, which is reflected in an increase in expenses of less than 1% quarter over quarter upon conversion to USD.

Cost of sales

Cost of sales include all expenses incurred in connection with production costs, related quality control and assurance expenses, cost of services sold to end-users, shipping expenses, supply chain activities as well as layout improvements.

For the three-month period ended March 31, 2017, cost of sales equaled $2.6 million, as compared to $2.0 million for the same period in 2016. In the first quarter of 2017, TSO_3 shipped 36 STERIZONE® VP4 Sterilizers, as compared to 25 sterilizers in the same period in 2016.

Gross profit was $1.6 million, or 37 % of revenue in Q1-2017, as compared to $1.1 million, or 36% of revenue in Q1-2016. This increase in gross margin contribution in 2017 resulted from growth of higher gross margin consumables sales and production cost reductions of STERIZONE® VP4 Sterilizers which, more than offset a decrease in service accessories revenues on a year-to-year basis.

Research and development

For the quarter ended March 31, 2017, research and development expenses were $1.4 million, as compared to $0.6 million for the same period in 2016. During the first quarter of 2017, the Company increased by $0.3 million material purchases, equipment maintenance and depreciation as well as building expenses to run the laboratory in Myrtle Beach and to work on projects such as the double door unit and the STERIZONE® 80L sterilizer as well as extended claims, endoscope and other medical device compatibility studies for its STERIZONE® VP4 Sterilizer. To support project development and the new laboratory, the Company also increased salary, share-based compensation and travelling expenses by $0.5 million in Q1-2017 as compared to the same period in 2016.

Selling, General and Administrative (SG&A)

Selling, general and administrative (SG&A) includes marketing, sales and service and administrative expenses. SG&A expenses were $2.2 million for the quarter ended March 31, 2017, as compared to $1.4 million for the the same period in 2016.

During the first quarter of 2017, as compared to the same period in 2016, the Company incurred an additional $0.3 million in each of salary and non-cash share based compensation as it expanded its management team over the course of 2016, and $0.2 million in professional fees associated with commercialization, marketing and administration, including the increase audit fees and conformity documentation following our growth activities. All commercialization and marketing efforts are engaged to develop our strategic partnership with hospitals to support the European launch and to accompany Getinge personnel in the Canadian, US and European markets.

Share-based compensation expense

For the quarter ended March 31, 2017, non-cash share-based compensation amortization amounted to $0.6 million, as compared to $0.2 million for the same period in 2016.

As at March 31, 2017, the Company had 7.3 million stock options oustanding, as compared to 6.0 million at the same date in 2016. Share-based compensation amortization grew as the Company issued more stock options to new and existing employees, and the Black-Scholes value of each option was higher as a result of a higher underlying stock price at the time of grant.

These expenses are presented in the Interim Condensed Consolidated Statements of Income (Loss) and Comprehensive Income (Loss) in the expense line items which correspond to the functions of the equity incentive holders.

Financial expenses (income)

For the quarter ended March 31, 2017, financial income was at $0.04 million, as compared to $0.01 million in 2016 when excluding the $1.6 million non-recurring foreign exchange translation gain recorded as a result of the conversion of Canadian dollars into US dollars during the first quarter of 2016. Including the one-time foreign exchange gain, the Company's net income in the first quarter of 2016 was $1.6 million.

Financial Position Analysis

(Unaudited, IFRS Basis, in thousands of US dollars)

	March 31, 2017	December 31, 2016
	$	$
Cash, cash equivalents and investments (short and long term)	**19,590**	19,260
Accounts receivable	**507**	2,318
Inventories	**2,075**	1,703
Property, plant and equipment	**2,427**	2,357
Intangibles assets	**1,920**	1,836
Accounts payable, accrued liabilities and deferred income tax liabilities	**2,884**	2,381
Warranty provision	**728**	575
Deferred revenues (short and long term)	**6,734**	6,949
Equity	**16,363**	17,671

Liquid Assets

As at March 31, 2017, cash, cash equivalents and investments amounted to $19.6 million, as compared to $19.3 million as at December 31, 2016.

In the first quarter of 2017, the Company generated approximately $1.3 million in cash from operations, excluding the effects of changes in working capital, as compared to $0.7 million for the same period in 2016 (when excluding the one-time $1.6 million foreign exchange translation gain). In the first quarter of 2017, the Company also generated approximately $1.8 million in cash from non-cash working capital as compared to $1.7 million used during the same period in 2016. The Company generated net positive cash from working capital in the first quarter of 2017 by using the automated receivable factoring program the Company entered into in December 2016 through a joint effort with Getinge and a Getinge global banking partner. Under this program, the Company may at any time factor (sell to the bank) up to 100% of the outstanding receivables that Getinge posts to the program in exchange for a small discount.

In the first quarter of 2017, the Company invested $0.3 million in capital expenditures on property, plant, equipment and intangible assets in its US facilities, infrastructure and its patent portfolio ($0.2 million for the same period in 2016).

Accounts Receivable

As at March 31, 2017, accounts receivable amounted to $0.5 million, as compared to $2.3 million as at December 31, 2016. As at March 31, 2017, receivables were mainly from government for R&D credit as well as sale tax credits while receivables as at December 31, 2016 included also amounts receivable from Getinge. In the first quarter of 2017, the Company used the automated receivable factoring program for almost all accounts receivable from Getinge.

Inventories

As at March 31, 2017, inventories amounted to $2.1 million, as compared to $1.7 million as at December 31, 2016.

	March 31, 2017 $	December 31, 2016 $
Raw Materials	**1,211**	1,023
Work in Progress	**352**	137
Finished Goods	**512**	543
	2,075	1,703

In the first quarter of 2017, the Company grew its inventories to support the growth of sales of STERIZONE® VP4 Sterilizers and to build supply of parts for products to be delivered in Q2-2017.

Property, Plant and Equipment

Property, plant and equipment amounted to $2.4 million as at March 31, 2017 which was at the same level as at December 31, 2016. During the quarter, TSO_3 invested a total of $0.2 million in property, plant and equipment. Of this amount, $0.1 million was invested in computer equipment, $0.1 million in leasehold improvement, in equipment and tools to complete the laboratory in Myrtle Beach which was largely offset by the amortization for the period.

Intangible Assets

As at March 31, 2017, intangible assets increased from $1.8 million at the end of 2016 to $1.9 million as at March 31, 2017.

Accounts Payable, Accrued Liabilities and Deferred Income Tax Liabilities

As at March 31, 2017, accounts payable, accrued liabilities and deferred income tax liabilities amounted to $2.9 million, as compared to $2.4 million as at December 31, 2016. The increase is primarily due to the higher purchasing, production and shipment volumes related to STERIZONE® VP4 Sterilizers in the first quarter of 2017 and to accrue for year-end related administrative work. As at March 31, 2017 and as at December 31, 2016, the Company recorded $0.1 million as deferred income tax liabilities.

Deferred Revenues

At the end of the first quarter 2017, deferred revenues represented almost exclusively the unamortized part of the deferred license revenue received under the Getinge Agreement.

As at March 31, 2017, the Company recorded $0.1 million of license revenue, which is recorded as revenue as services are rendered and products are delivered over the term of the Getinge Agreement ($0.1 million in Q1-2016).

Shareholders' Equity

As at March 31, 2017, Shareholders' Equity amounted to $16.4 million, as compared to $17.7 million as at December 31, 2016. The variation is mainly the result of the absorption of the operating deficit incurred during the three-month period ended March 31, 2017 partially offset by $0.6 million in share-based compensation amortization during the same period.

As at March 31, 2017, the number of outstanding shares was 92,030,751 (91,977,214 as at December 31, 2016).

Cash Flows Analysis

(Unaudited, IFRS Basis, in thousands of US dollars)

	First quarter	
	2017	2016
	$	$
Operating Activities	**555**	(723)
Investing Activities	**1,770**	309
Financing Activities	**63**	10,145

Operating Activities

Cash generated by the operating activities amounted to $0.6 million for the first quarter of 2017, as compared to $0.7 million used during the corresponding period in 2016. In the first quarter of 2017, the Company generated $1.8 million in cash from working capital adjustments ($1.7 million used in 2016), and consumed $1.3 million in net loss after adjusting for non-cash items (net income of $0.9 million in 2016 including the $1.6 million foreign exchange translation gain from the translation of Canadian dollars into US dollars).

Funding of non-cash working capital was improved during the first quarter of 2017 by using the automated receivable factoring program concluded in December 2016 through a joint effort with Getinge and a Getinge global banking partner.

In the first quarter of 2017, the Company invested $0.3 million in capital expenditures on property, plant, equipment and intangible assets in its US facilities, infrastructure and its patent portfolio ($0.2 million for the same period in 2016).

Investing Activities

For the three-month period ended March 31, 2017, investing activities generated $1.8 million, as compared to $0.3 million during the same period in 2016; an increase resulting from the net disposal of $2.1 million in short-term investments and the purchase of $0.3 million in property plant and equipment and intangible assets in Q1-2017, as compared to $0.5 million and $0.2 million respectively in the same period last year.

Financing Activities

For the three-month period ended March 31, 2017, financing activities generated $0.06 million as compared to $10.1 million for the same period in 2016. The total amount generated in Q1-2017 was from options exercised while the total amount $10.1 million in Q1-2016 was from warrant exercises expiring in February 2016.

Summary of Quarterly Results

(Unaudited, IFRS Basis, in thousands of US dollars, except per share amounts)

This table shows the quarterly evolution of sales, net income (loss) and net income (loss) per share.

	2017 Q1	Q4	Q3	Q2	2016 Q1
Revenues	**4,211**	3,746	3,507	2,977	3,071
Net income (loss)	**(1,980)**	(2,068)	(1,473)	(1,487)	649
Net income (loss) per Share (basic, in $)	**(0.02)**	(0.02)	(0.02)	(0.02)	0.01

Segmented Information

The Company is structured as a single operating segment.

	March 31, 2017				March 31, 2016			
	Revenues	**Inventories**	**Property, Plant and Equipment**	**Intangible Assets**	Revenues	Inventories	Property, Plant and Equipment	Intangible Assets
Canada and worldwide	**110**	**1,780**	**1,038**	**1,807**	203	1,878	346	1,708
United States	**4,101**	**295**	**1,389**	**113**	2,868	143	83	-
	4,211	**2,075**	**2 ,427**	**1,920**	3,071	2,021	429	1,708

For the first quarter of 2017, revenue from Getinge represented 99% of the Company's total revenues in conjunction with the Getinge Agreement (93% for the same period in 2016). Shipments to Getinge were made in the United States, in Europe and in Canada.

Off-Balance Sheet Arrangement

The Company made no off-balance sheet arrangement during the first quarter of 2017 other than purchase orders issued in the normal course of business.

Additional Disclosure – Unrecorded Tax Assets

The Company has accumulated a substantial amount of losses, unclaimed expenses and tax credits that could be claimed in the future to reduce income taxes. The related deferred income tax assets will be recorded on the Condensed Consolidated Financial Statements only when the Company concludes that these tax assets will probably be materialized by shielding profits from taxes, or otherwise. If the Company had reached this conclusion on March 31, 2017, $20.0 million in tax assets would have been recorded based on an effective rate of 15% for federal taxes and 11.9% for provincial taxes (same amount as at December 31, 2016).

Capital Resources

The Company needs capital primarily to finance its production, its research and development, its selling, general and administrative expenses, its working capital and its capital expenditures. The Company's capital is comprised of share capital, reserve for share-based compensation and reserve for warrants.

Depending on the quality of the credit structure of a prospective debt transaction and prevailing market conditions, the Company could finance a portion of its cash needs through debt issues. However, given its history of negative earnings, it is unlikely at the present time that the Company could access senior debt financing in any sizable amount from traditional sources such as commercial banks. In the past, the Company has financed its activities through public and private financings and, to a small extent, through government grants and tax credits.

The Company invests its funds in highly liquid short-term investments as required by its Investment Policy (see section on Risk Factors presented in the Annual Management Discussion and Analysis of the Company for the year ended December 31, 2016). These securities are chosen on the basis of foreseen cash requirements and safety.

Accounting Policies

The reader is refered to notes 2 and 3 of the Company's Annual Audited Consolidated Financial Statements for the year ended December 31, 2016 for a detailed presentation of accounting policies, critical accounting judgments, key source of estimation uncertainty and future accounting changes.

Risk Factors

The Company operates in industry segments that have a variety of risk factors and uncertainties. TSO_3 hereby incorporates by reference the risks and uncertainties described in our Annual Management Discussion and Analysis of the Company for the year ended December 31, 2016 which reflect, to its knowledge, the material risks and uncertainties the Company faced as at March 31, 2017.

Disclosure and Internal Controls

In accordance with National Instrument 52-109 of the Canadian Securities Administrators, the Company has filed certificates signed by the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO") that, among other things, report on the design of disclosure controls and procedures (DC&P) and the design of internal control over financial reporting (ICFR).

The CEO and the CFO have designed DC&P, or caused them to be designed under their supervision, to provide reasonable assurance that (1) material information relating to the Company has been made known to them and that (2) information required to be disclosed in the Company's filings is recorded, processed, summarized and reported within the prescribed time periods under securities legislation.

Also, the CEO and the CFO have designed ICFR, or have caused it to be designed under their supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Interim Financial Statements for financial reporting purposes in accordance with IFRS.

Evaluation of Disclosure controls and procedures and internal controls over financial reporting

An evaluation of the design of DC&P and ICFR is carried out annually under the supervision of the CEO and the CFO and the results of the last such evaluation were communicated to the Board of Directors as part of the review made in connection with the end of fiscal year 2016. This evaluation consisted of a review of documentation, audits and other procedures that management considered appropriate in the circumstances.

Based on this evaluation and using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) on Internal Control – Integrated Framework and in connection with the preparation of its financial report and management's discussion and analysis, the two certifying officers consider the design of DC&P and ICFR to be adequate for the Company's reporting for the period ended March 31, 2017.

Changes in internal controls over financial reporting

No changes were made to the Company's internal controls over financial reporting that occurred during the quarter ended March 31, 2017 that have materially affected, or are reasonably likely to materially affect, the internal controls over financial reporting.

INTERIM CONDENSED CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS

For the three-month periods ended March 31, 2017 and 2016

Interim Condensed Consolidated Statements of Income (Loss) and Comprehensive Income (Loss)

Periods ended March 31, 2017 and 2016 (Unaudited, in thousands of US dollars, except per share amounts)

	Notes	First Quarter 2017 $	2016 $
Revenues		**4,211**	3,071
Cost of sales		**2,641**	1,961
		1,570	1,110
Expenses			
Research and development		**1,353**	606
Selling, general and administrative		**2,209**	1,385
Financial expenses (income)	**4**	**(39)**	(1,588)
Total Expenses		**3,523**	403
Net income (loss) before income taxes		**(1,953)**	707
Income taxes		**27**	58
Net income (loss) and total comprehensive income (loss)		**(1,980)**	649
Basic and diluted net income (loss) per share (in $)	**17**	**(0.02)**	0.01
Basic and diluted net comprehensive income (loss) per share (in $)	**17**	**(0.02)**	0.01

The accompanying notes are an integral part of these interim condensed consolidated financial statements.

Interim Condensed Consolidated Statements of Changes in Equity

(Unaudited, in thousands of US dollars)

	Notes	Share Capital $	Reserve-Share-Based Compen-sation $	Reserve – Warrants $	Deficit $	Other Comprehen-sive Income $	Total $
Balance at January 1, 2016		98,817	3,990	493	(91,455)	(1,712)	10,133
Warrants exercised	12,14	10,486	-	(391)	-	-	10,095
Warrants expired	14	-	-	(102)	102	-	-
Share-based compensation	13	-	216	-	-	-	216
Net income for the period		-	-	-	649	-	649
Balance at March 31, 2016		109,303	4,206	-	(90,704)	(1,712)	21,093
Balance at April 1, 2016		109,303	4,206	-	(90,704)	(1,712)	21,093
Options exercised	12,13	1,103	(384)	-	-	-	719
Share-based compensation	13	-	887	-	-	-	887
Net loss for the period		-	-	-	(5,028)	-	(5,028)
Balance at December 31, 2016		110,406	4,709	-	(95,732)	(1,712)	17,671
Balance at January 1, 2017		110,406	4,709	-	(95,732)	(1,712)	17,671
Options exercised	12,13	109	(46)		-	-	63
Share-based compensation	13	-	609	-	-	-	609
Net loss for the period		-	-	-	(1,980)	-	(1,980)
Balance at March 31, 2017		110,515	5,272	-	(97,712)	(1,712)	16,363

The accompanying notes are an integral part of these interim condensed consolidated financial statements.

Interim Condensed Consolidated Statements of Financial Position

(Unaudited, in thousands of US dollars)

	Notes	March 31, 2017 $	December 31, 2016 $
Current Assets			
Cash and Cash Equivalents	6	**5,086**	2,698
Short-term Investments	6	**14,504**	15,064
Accounts Receivable	7	**507**	2,318
Inventories	8	**2,075**	1,703
Prepaid Expenses		**190**	102
		22,362	21,885
Non-current Assets			
Long-term Investments	6	**-**	1,498
Property, Plant and Equipment	9	**2,427**	2,357
Intangible Assets	10	**1,920**	1,836
		4,347	5,691
		26,709	27,576
Current Liabilities			
Accounts Payable and Accrued Liabilities		**2,748**	2,272
Warranty Provision		**728**	575
Deferred Revenues	11	**1,083**	1,004
		4,559	3,851
Non-current Liabilities			
Deferred Income Tax Liabilities		**136**	109
Deferred Revenues	11	**5,651**	5,945
		10,346	9,905
Equity			
Share Capital	12	**110,515**	110,406
Reserve – Share-based Compensation	13	**5,272**	4,709
Deficit		**(97,712)**	(95,732)
Accumulated Other Comprehensive Loss		**(1,712)**	(1,712)
		16,363	17,671
		26,709	27,576

The accompanying notes are an integral part of these interim condensed consolidated financial statements.

Interim Condensed Consolidated Statements of Cash Flows

Periods ended March 31, 2017 and 2016 (Unaudited, in thousands of US dollars)

	Notes	Three months 2017 $	2016 $
Cash flows from operating activities			
Net income (loss)		**(1,980)**	649
Adjustments for:			
Depreciation and amortization		**168**	77
Deferred income tax liabilities	18	**27**	-
Share-based compensation	13	**609**	216
Investment income	4	**(75)**	(38)
		(1,251)	904
Changes in non-cash operating working capital items	15	**1,765**	(1,656)
Interest received		**41**	29
Cash flows generated by (used in) operating activities		**555**	(723)
Cash flows from investing activities			
Acquisition of investments		**(1,412)**	(2,000)
Disposal of short-term investments		**3,504**	2,466
Acquisition of property, plant and equipment	9	**(193)**	(102)
Acquisition of intangible assets	10	**(129)**	(55)
Cash flows generated by investing activities		**1,770**	309
Cash flows from financing activities			
Options exercised	12	**63**	-
Warrants exercised	12, 14	**-**	10,145
Cash flows generated by financing activities		**63**	10,145
Increase in cash and cash equivalents		**2,388**	9,731
Cash and cash equivalents at the beginning		**2,698**	12,654
Cash and cash equivalents at the end		**5,086**	22,385

The accompanying notes are an integral part of these interim condensed consolidated financial statements.

Notes to the Interim Condensed Consolidated Financial Statements

Periods ended March 31, 2017 and 2016 (Unaudited, in thousands of US dollars, unless otherwise indicated)

1. Description of Business

TSO_3 (the "Company") exists under the Business Corporations Act (Québec). The Company's activities encompass the sale, production, maintenance, research, development and licensing of sterilization processes, related consumable supplies and accessories for medical devices that are sensitive to heat and moisture. The Company designs products for sterile processing areas in medical facilities that offer an advantageous replacement solution to other low temperature sterilization and high level disinfection processes currently used. TSO_3 also offers services related to the maintenance of sterilization equipment and compatibility testing of medical devices with such processes. The head office of the Company is located at 2505, avenue Dalton, Québec (Québec), Canada and its subsidiary office is located at 1636 American Way, Myrtle Beach, SC, United States.

2. Accounting Policies

Statement of Compliance

The Interim condensed consolidated unaudited financial statements ("financial statements") are prepared in compliance with International Accounting Standard 34 – Interim Financial Reporting ("IAS 34"). Accordingly, certain information and footnote disclosure normally included in annual financial statements prepared in accordance with International Financial Reporting Standards (IFRS) and applicable as at March 31, 2017 have been omitted or condensed. As such, these financial statements should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2016.

Accounting Policy Adopted

On January 29, 2016, the IASB published an amendment to IAS 7 - Statement of Cash Flows. The amendment, "Disclosure Initiative" clarifies that changes in liabilities arising from financing activities, including cash and non-cash changes, shall be disclosed in the Statement of Cash Flows. As at January 1, 2017, the Company adopted the amendments to IAS 7 and it had no impact on its financial statements.

Basis of Presentation

The financial statements have been prepared on a going concern basis, at historical cost, except for certain financial instruments that are measured at fair value, as explained in the accounting policies below. Historical cost generally reflects the fair value of the consideration given in exchange for assets. The principal accounting policies are set out hereafter.

Presentation Currency and Foreign Currency Translation

The financial statements are presented in US dollars, the functional currency of the Company.

Foreign currency transactions of the Company are translated into US dollars as follows: monetary assets and liabilities are translated at the exchange rate in effect at the reporting date, non-monetary assets and liabilities are translated at historical rates, revenues and expenses are translated at the exchange rates in effect at the time of the transaction, and exchange gains or losses resulting from translation are recorded in net income.

Notes to the Interim Condensed Consolidated Financial Statements

Periods ended March 31, 2017 and 2016 (Unaudited, in thousands of US dollars, unless otherwise indicated)

2. Accounting Policies (cont'd)

Revenue Recognition

Revenue

The Company generates revenue from the sale of sterilizers, related spare parts and maintenance services, consumable supplies, accessories and compatibility testing services. The Company recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred, the price to the buyer is fixed or determinable and collection is reasonably assured.

The Company signed an exclusive distribution agreement that includes the sale of sterilizers under a formula for minimum unit shipments as well as license revenue. The Company determines the different deliverables related to the distribution agreement and estimates the revenues related to these elements.

In addition, the Company earns revenue from service contracts that is recognized using the straight-line method over the term of each contract.

License Revenue

The Company also generates license revenue resulting from an exclusive distribution agreement with Getinge Infection Control. These revenues are recognized as services are rendered and products are delivered over the term of the Getinge Agreement (see Note 11).

Financial Income

Financial Income from a financial asset is recognized when it is probable that the economic benefits will flow to the Company and the amount of income can be measured reliably. Financial income is accounted for on an accrual basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Derecognition

A financial asset is derecognized when the rights to receive cash flows from the asset have expired; the Company has transferred its rights to receive cash flows from the asset and either has transferred substantially all the risks and rewards of the asset or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

The Company is involved in an automated receivable factoring program with Getinge and a Getinge global banking partner. Under this program, TSO_3 may sell to the bank the outstanding receivables that Getinge posts to the program. The Company receives the money from the bank; these transactions are accounted for when the Company is considered to have surrendered control over the transferred of the asset (accounts receivable).

Notes to the Interim Condensed Consolidated Financial Statements

Periods ended March 31, 2017 and 2016 (Unaudited, in thousands of US dollars, unless otherwise indicated)

2. Accounting Policies (cont'd)

Property, Plant and Equipment

Property, plant and equipment are recorded initially and subsequently at cost less depreciation and impairment. Depreciation is calculated using the straight-line method over the following estimated useful lives taking into account any residual value:

Office Furniture and Lift Truck	10 years
Equipment and Tools	7 years
Sterilizers Used Internally	3 and 5 years
Marketing Stand and Demonstration Equipment	5 years
Medical Devices	3 years
Computer Equipment	3 years
Leasehold Improvements	2 years

The residual value, depreciation method and the useful life of an asset are reviewed at the end of each fiscal year.

Warranty Provision

The Company offers a standard warranty of the shorter of 18 months for product shipped to its distributor and 12-months for product sold through to end users. The estimated cost of the warranty is based on the expectation of the Company regarding defective sterilization devices and their related spare parts and accessories, the probability that these defects will materialize and their repair costs.

Critical Accounting Judgments and Key Sources of Estimates Uncertainty

In the application of the Company's accounting policies, which are described in this note, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The following are the critical judgments and key sources of estimates:

1. *Recoverability of Long-Lived Assets:*

   On an annual basis, the Company evaluates if there are indicators of impairment. When such indicators are identified, the Company is required to perform an impairment test in order to measure the recoverable amount of its long-lived assets. The main judgments made by management for the impairment test performed as at December 31, 2016 were the following:

   - Most probable discounted cash flow projections based on management's best estimate of the range of economic conditions that will exist over the remaining useful life of the intangible assets and property, plant and equipment;
   - A pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the intangible assets and property, plant and equipment.

Notes to the Interim Condensed Consolidated Financial Statements

Periods ended March 31, 2017 and 2016 (Unaudited, in thousands of US dollars, unless otherwise indicated)

2. Accounting Policies (cont'd)

Critical Accounting Judgments and Key Sources of Estimates Uncertainty (cont'd)

2. *Inventory Valuation:*

At each reporting period, the Company evaluates the value of its inventories. The obsolescence and the net realizable value are reviewed on an ongoing basis by management of the supply chain function based on its experience and knowledge of the current market conditions.

3. *Government Assistance and Research and Development Tax Credits*

Government assistance and research and development tax credits are recorded in the financial statements under item "Research and Development" 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 assistance. In general, the Company recognizes 80 % of the amount that it expects to receive at the time a claim is recorded.

4. *Share-Based Compensation:*

The share-based compensation expense related to the award of stock options has been amortized using the graded vesting method. The options awarded pursuant to the Company's option plan generally vest over a three-year period and may be exercised within a maximum of 10 years of the award date. In evaluating the value of the share-based compensation, the Company uses judgment in assessing critical parameters such as the expected volatility, the risk free interest-rate, as well as the estimated number of options that will vest.

The share-based compensation expense entailed by the award of DSUs has been amortized using the graded vesting method. DSUs awarded pursuant to the Company's plan generally vest 50% at award date and the other 50% vest over a period of one year. DSUs are payable on the termination of service of the participant. In evaluating the value of the DSUs, the Company uses judgment in assessing critical parameter such as the estimated number of DSUs that will vest.

5. *Warrants Valuation:*

Warrants issued as part of an equity issue may be exercised at any time after their issuance until their stated expiry. In evaluating the value of the warrants, the Company uses judgment in assessing critical parameters such as the volatility, the risk free interest rate and the likelihood that the Company will be able to exercise its option to accelerate the maturity of the warrants.

6. *Deferred Income Taxes:*

A deferred income tax asset will be recognized in the financial statements only when the Company concludes that these tax assets will probably be materialized by shielding profits from taxes or otherwise. The tax asset amount will be recorded based on the enacted and substantively enacted income tax rates for the year in which the differences are expected to reverse.

Notes to the Interim Condensed Consolidated Financial Statements

Periods ended March 31, 2017 and 2016 (Unaudited, in thousands of US dollars, unless otherwise indicated)

2. Accounting Policies (cont'd)

Critical Accounting Judgments and Key Sources of Estimates Uncertainty (cont'd)

7. *Functional Currency:*

The Company applies judgment in determining the functional currency of the Company and its subsidiary. Functional currency is determined based on the currency that influences the elaboration of sales prices and on the currency that influences labor, materials and others costs.

8. *Revenue Recognition:*

The Company applies judgment in determining the different deliverables related to the distribution agreement and estimating the revenues related to these elements.

Revenues from sales of products are recognized when products have been delivered to the distributor and collection is reasonably assured.

9. *Warranty:*

The Company applies judgment in determining the possible liabilities that it may incur under its product warranty obligations.

The Company accrues for warranty costs as part of the cost of sales based on historical expenditure on material costs, technical support labor costs, and associated overheads.

3. Future Accounting Changes

On July 25, 2014, the IASB completed its project on financial instruments by publishing amendments to IFRS 9 "Financial Instruments", which replaces the provisions of IAS 39 "Financial Instruments: Recognition and Measurement". IFRS 9, as amended, introduces a logical approach for the classification of financial assets, which is driven by cash flow characteristics and the business model in which an asset is held. This single, principle-based approach replaces existing rule-based requirements that are generally considered to be overly complex and difficult to apply. The new model also results in a single impairment model being applied to all financial instruments, thereby removing a source of complexity associated with previous accounting requirements. The IFRS 9 is effective for annual periods beginning on or after January 1, 2018. Early adoption is permitted. The Company is currently evaluating the impact of this new standard on its financial statements.

The IASB also published IFRS 15 - Revenue from Contracts with Customers, which replaces all the revenue standards and interpretations in IFRS, including IAS 11 - Construction Contracts and IAS 18 - Revenue. The IFRS 15 is effective for annual periods beginning on or after January 1, 2018. Early adoption is permitted for IFRS 15. Although the Company has made progress in its implementation of IFRS 15, it is not yet possible to make a reliable estimate of the impact of the new standard on the Company's financial statements as the Company is collecting the new data requirements.

Notes to the Interim Condensed Consolidated Financial Statements

Periods ended March 31, 2017 and 2016 (Unaudited, in thousands of US dollars, unless otherwise indicated)

3. Future Accounting Changes (cont'd)

On September 16, 2014, the IASB published an amendment to IFRS 10 – Consolidated Financial Statements and to IAS 28 - Investments in Associates and Joint Ventures. The amendment "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture" clarifies the accounting for the gain or loss resulting from loss of control or from transfer of assets following a transaction with an associate or joint venture. Originally, the provisions of this amendment were supposed to apply prospectively to financial statements beginning on or after January 1, 2016.

However, in December 2015, IASB published an amendment which defers the application to financial statements beginning on or after a date to be determined. Early adoption is permitted. The Company is currently evaluating the impact of this amendment on its financial statements.

On January 13, 2016, the IASB published the standard IFRS 16 - Leases, which replaces IAS 17, Leases. This new standard specifies how to recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless lease term is 12 months or less or the underlying asset has a low value. Lessor accounting remain substantially unchanged. The provisions of this new standard will apply to financial statements beginning on or after January 1, 2019. Early adoption is permitted if IFRS 15, Revenue from Contracts with customers is previously applied. The Company is currently evaluating the impact of this new standard on its financial statements.

On June 30, 2016, the IASB issued narrow-scope amendments to IFRS 2 Share-based Payment clarifying how to account for certain types of share-based payment transactions. The amendments provide requirements on the accounting for:

- The effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments;
- Share-based payment transactions with a net settlement feature for withholding tax obligations;
- A modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

The amendments are effective for annual periods beginning on or after January 1, 2018. The Company is currently analyzing the potential effects of adopting this standard on its financial statements.

4. Financial expenses (income)

	First Quarter	
	2017	2016
	$	$
Investment Income	**(75)**	(38)
Bank Charges	**29**	8
Foreign Exchange Gain (Loss)	**7**	(1,558)
	(39)	(1,588)

Notes to the Interim Condensed Consolidated Financial Statements

Periods ended March 31, 2017 and 2016 (Unaudited, in thousands of US dollars, unless otherwise indicated)

5. Additional Information on the Interim Condensed Unaudited Consolidated Statements of Income and Comprehensive Income (Loss)

Expenses in cost of sales, research and development as well as selling, general and administrative include the following:

	First Quarter	
	2017	2016
	$	$
Salary and Other Benefits	**1,865**	1,251
Share-based compensation expense	**609**	216
Depreciation of Property, Plant and Equipment	**123**	39
Amortization of Intangible Assets	**45**	38

6. Financial Instruments

Cash and Cash Equivalents

	March 31, 2017	December 31, 2016
	$	$
Cash	**5,086**	2,698

Investments

	March 31, 2017	December 31, 2016
	$	$
Short-term Investments		
Bank Guaranteed Investment Certificates	**1,799**	2,015
Bonds	**12,705**	13,049
	14,504	15,064
Long-term Investments		
Bonds	**-**	1,498
	14,504	16,562

Investments were rated A+ or better and had an average yield of 1.32 % as at March 31, 2017.

Bonds held by the Company are classified as level 1 under IFRS 13 because their valuation model is based on quoted prices included in Level 1 that are observable for the assets. Their fair value is calculated using the market value on the measurement date.

Bank Guaranteed Investment Certificates held by the Company are classified as level 2 under IFRS 13 because their valuation model is based on inputs other than quoted prices included in Level 1 that are observable for the assets, either directly or indirectly. Their fair value is calculated using the market value on the measurement date.

No transfer between Level 1 and Level 2 of the fair value hierarchy has been made during the quarter ended March 31, 2017 (no transfer in 2016).

Notes to the Interim Condensed Consolidated Financial Statements

Periods ended March 31, 2017 and 2016 (Unaudited, in thousands of US dollars, unless otherwise indicated)

6. Financial Instruments (cont'd)

Accounts Receivable

	March 31, 2017 $	December 31, 2016 $
Accounts Receivable	**507**	2,318

Accounts Payable and Accrued Liabilities

	March 31, 2017 $	December 31, 2016 $
Accounts Payable and Accrued Liabilities	**2,748**	2,272

7. Accounts Receivable

	March 31, 2017 $	December 31, 2016 $
Receivables from Clients	**212**	2,025
Government Credits Receivable	**295**	293
	507	2,318

There were no bad debt allowances as at March 31, 2017 nor as at December 31, 2016.

8. Inventories

	March 31, 2017 $	December 31, 2016 $
Raw Materials	**1,211**	1,023
Work in Progress	**352**	137
Finished Goods	**512**	543
	2,075	1,703

9. Property, Plant and Equipment

During the period ended March 31, 2017, the Company invested equipment and tools for $0.13 million, medical devices, sterilizers and leasehold improvements for $0.06 million. For the entire year 2016, the Company acquired $1.08 million in equipment and tools, marketing demonstration equipment, medical devices in the Company's laboratories in Canada and in the United States, computer equipment and leasehold improvements; and also capitalized $1.2 million for sterilizers used internally.

10. Intangible Assets

During the period ended March 31, 2017, the Company acquired $0.13 million of new patents, licences, trademarks and software. For the entire year 2016, the Company invested $0.3 million in patents, trademarks and website.

Notes to the Interim Condensed Consolidated Financial Statements

Periods ended March 31, 2017 and 2016 (Unaudited, in thousands of US dollars, unless otherwise indicated)

11. Deferred Revenues

On November 25, 2015, the Company and Getinge entered into an exclusive distribution agreement (the Getinge Agreement) to distribute the STERIZONE® VP4 Sterilizer worldwide. Included in this agreement was an upfront license fee payment of $7.5 million from Getinge to the Company. The Getinge Agreement includes performance requirements for five years as well as a formula for minimum unit shipments. Getinge will also receive ongoing technical support from the Company.

At the end of 2015, the Company recorded the $7.5 million received as deferred revenues which shall be recorded as revenue over the life of the agreement.

Sales under the Getinge Agreement are made in US dollars to Getinge, which is the only customer for the STERIZONE® VP4 Sterilizer while the Getinge Agreement is in force.

Current deferred revenues also include the remaining unamortized portion of prepaid service contracts covering a part of the installed base of STERIZONE® Sterilizers in Canada.

12. Share Capital

Authorized:

The authorized capital of the Company consists of an unlimited number of common shares and an unlimited number of preferred shares.

The common shares are voting, participating and without par value.

The preferred shares are non-voting and without par value. They have priority over the common shares for dividends and a distribution of their capital upon liquidation of the Company, and are issuable in series, each series bearing the number of shares, designation, rights, privileges, restrictions and conditions determined by the Board of Directors upon their issue.

Issued:

	March 31, 2017		December 31, 2016	
Issued and Paid	**Number of Common Shares**	**$**	Number of Common Shares	$
Balance at Beginning	**91,977,214**	**110,406**	83,324,789	98,817
Options Exercised	**53,537**	**109**	969,825	1,103
Warrants Exercised	**-**	**-**	7,682,600	10,486
Balance at the End	**92,030,751**	**110,515**	91,977,214	110,406

Each warrant entitled to acquire one common share at a price of $1.43 (CAD$1.875) at any time prior to March 5, 2017. The warrants were subject to an accelerated expiry if, at any time after September 30, 2015, the published closing trade price of the common shares on the TSX was equal or greater than $1.52 (CAD$2.00) for any 10 consecutive trading days. As at January 5, 2016, the Company announced the acceleration of the expiry date to February 4, 2016 (Note 14).

The compensation paid to the syndicate of underwriters was equal to a sale commission of 7% of the gross proceeds from the equity issue, and the issuance of 460,000 compensation warrants. Each compensation warrant enabled its holder to purchase one common share of the Company at the price of $0.99 (CAD$1.25) until March 5, 2016. These compensation warrants had a fair value of $0.1 million (CAD$0.1 million).

Notes to the Interim Condensed Consolidated Financial Statements

Periods ended March 31, 2017 and 2016 (Unaudited, in thousands of US dollars, unless otherwise indicated)

12. Share Capital (cont'd)

During the first quarter ended March 31, 2017, no warrant was exercised due to the acceleration of the expiry date to February 4, 2016 (7,682,600 common shares issued in 2016 in connection with the exercise of warrants).

During the first quarter ended March 31, 2017, pursuant to the Company's Stock Option Plan, 53,537 stock options have been exercised for an aggregate cash consideration of $0.06 million. During the year ended December 31, 2016, holders exercised 969,825 options for an aggregate cash consideration of $0.7 million.

Employee Stock Purchase Plan

On May 2, 2007, the Company set up an employee stock purchase plan for employees and executives. Eligible participants may contribute, in the form of payroll deductions, up to 5% of their base salary. The Company contributes an amount equal to 50% of the participant's total monthly contribution. Each month, the participants' and Company's contributions are transferred to an investment dealer who purchases, on the open market and promptly upon reception of the contributions, shares for a total purchase price equal to the amount of such contributions.

Deferred Share Unit Plan

DSUs are awarded in connection with the 2016 Stock Incentive Compensation Plan. Under this plan, each eligible person receives a portion of his or her compensation in the form of DSUs. DSUs awarded pursuant to the Company's plan generally vest 50% at award date and the other 50% vest over a period of one year. DSUs are payable on the termination of service of the participant. The value of a DSU is determined based on the closing price of the Common Shares of TSO_3 for the last trading day. The DSUs are repurchased by TSO_3, and the Company anticipates using common stock when an eligible person ceases to be a plan participant. For the purpose of repurchasing DSUs, the value of a DSU is determined based on the closing price of the Common Shares of TSO_3 for the last trading day prior to the repurchase of the DSUs.

As at March 31, 2017, the number of DSUs awarded amounted to 0.1 million (none as at March 31, 2016). During the three-month period ended March 31, 2017, TSO_3 recorded a compensation expense of $0.01 million (none as at March 31, 2016) for its deferred share unit plan.

13. Reserve – Share-Based Compensation

The Company's Board of Directors adopted the 2016 Stock Incentive Compensation Plan which includes the award of stock options. The plan was approved by the shareholders. The total number of common shares that can be issued under this plan for all forms of award from the Company's share capital was 8.0 million as at March 31, 2017, (8.0 million as at December 31, 2016). The options awarded pursuant to this plan generally vest over a three-year period and may be exercised within a maximum of 10 years from the date of award.

During the three-month period ended March 31, 2017, the Company awarded 0.43 million stock options, (1.05 million for the same period in 2016) at a weighted average exercise price of $2.31 or CAD$3.08 ($1.31 or CAD$1.80 for the same period in 2016). The weighted average fair value of these stock options was $1.44 or CAD$1.92 for the three-month period of 2017 ($0.66 or CAD$0.91 for the same period in 2016).

Notes to the Interim Condensed Consolidated Financial Statements

Periods ended March 31, 2017 and 2016 (Unaudited, in thousands of US dollars, unless otherwise indicated)

13. Reserve – Share-Based Compensation (cont'd)

The share-based compensation expense pertaining to the award of options is amortized using the graded vesting method and represents a share-based compensation expense of $0.6 million for the three-month period ended March 31, 2017 ($0.2 million for the same period in 2016) presented in the Interim Condensed Consolidated Statements of Income (Loss) in the functions based on the option holders.

The fair value of the stock options awarded is estimated using the Black-Scholes option pricing model under the following weighted average assumptions:

US$	**March 31, 2017**	December 31, 2016
Weighted Average Share Price	**$2.31**	$1.88
Exercise Price	**$2.31**	$1.88
Risk Free Interest Rate	**1.38%**	1.15%
Estimated Share Price Volatility	**61%**	59%
Expected Life	**8 years**	8 years
Expected Dividend Yield	**0%**	0%

The share-based compensation expense takes into account an estimate of the number of options and DSUs that will actually vest and be exercised. In addition, option pricing models such as the Black-Scholes model require highly subjective assumptions, including the assumed stock price volatility of the underlying shares. Option's volatility was estimated for the 2017 and 2016 awards on the basis of the historical volatility of the Company's share price prior to the date of award. Any change in the assumptions can materially affect the fair value estimates.

US$	**Number**	**March 31, 2017 Weighted Average Exercise Price $**	Number	December 31, 2016 Weighted Average Exercise Price $
Outstanding at beginning	**7,024,231**	**1.39**	4,993,568	0.89
Granted	**430,000**	**2.31**	3,516,137	1.88
Exercised	**(53,537)**	**1.26**	(969,825)	0.74
Expired	**-**	**-**	(73,203)	0.81
Forfeited	**(66,667)**	**1.31**	(442,446)	1.09
Outstanding at end	**7,334,027**	**1.46**	7,024,231	1.39
Exercisable at end	**2,946,111**	**0.85**	2,637,905	0.77

The following table summarizes certain information regarding the stock options of the Company as at March 31, 2017:

	Outstanding Options		Exercisable Options	
Exercise Price in US$	Number	Average Remaining Contractual Life (year)	Number	Average Remaining Contractual Life (year)
$0.00 to $0.85	1,568,573	6.38	1,458,002	4.73
$0.86 to $1.69	2,989,467	7.44	1,447,122	6.09
$1.70 to $2.72	2,775,987	9.53	40,987	0.47
	7,334,027	8.00	2,946,111	5.34

Notes to the Interim Condensed Consolidated Financial Statements

Periods ended March 31, 2017 and 2016 (Unaudited, in thousands of US dollars, unless otherwise indicated)

13. Reserve – Share-Based Compensation (cont'd)

The following table summarizes certain information regarding the stock options of the Company as at December 31, 2016:

	Outstanding Options		Exercisable Options	
Exercise Price In US$	Number	Average Remaining Contractual Life (Year)	Number	Average Remaining Contractual Life (Year)
$0.00 To $0.84	1,522,103	3.59	1,397,925	3.16
$1.02 To $1.58	2,792,834	7.93	996,823	6.25
$1.70 To $2.76	2,709,294	9.27	243,157	3.56
	7,024,231	7.51	2,637,905	4.37

14. Reserve – Warrants

	March 31, 2017		December 31, 2016	
US$	Number	Weighted Average Exercise Price $	Number	Weighted Average Exercise Price $
Outstanding at Beginning	-	-	8,977,200	1.33
Exercised	-	-	(7,682,600)	1.31
Expired	-	-	(1,294,600)	1.36
Outstanding at end	-	-	-	-
Exercisable at end	-	-	-	-

During the first quarter of 2015, 9.2 million warrants were issued to purchasers of units on the closing date of the bought deal offering by prospectus in March 2015. The warrants were subject to an accelerated expiry if at any time after September 30, 2015, the published closing trade price of the Company's common shares on the TSX was equal to or greater than $1.52 (CAD$2.00) for 10 consecutive trading days. These warrants, allowed their holders to purchase 9.2 million shares at a price of $1.43 (CAD$1.875) per share until their March 5, 2017 expiry.

On January 5, 2016, the Company has prevailed itself of an option to accelerate the maturity of the warrants to February 4, 2016. Of the 8.5 million warrants subject to expiry acceleration as at January 5, 2016, 7.2 million were exercised and 1.3 million expired unexercised. The total proceeds from the 7.2 million warrants subject to an accelerated expiry associated with the 2015 financing equaled $9.7 million (CAD$13.5 million).

In addition, 460,000 warrants were issued as part of the compensation to the underwriters in connection with the equity issue closed on March 5, 2015. Each of these 460,000 compensation warrants were exercisable to acquire one common share at the exercise price of $0.99 (CAD$1.25) until March 5, 2016. From January 1, 2016 to the expiration date of March 5, 2016, all compensation warrants had been exercised for total cash proceeds of $0.4 million (CAD$0.6 million).

At any time when warrants expire without being exercised or are being cancelled, the Company is authorized to transfer to the Deficit the corresponding amount that was included in the Reserve for Warrants. Consequently, upon the expiration of 1.3 million warrants on February 4, 2016, the corresponding reserve of $0.1 million was transferred to the Deficit.

Notes to the Interim Condensed Consolidated Financial Statements

Periods ended March 31, 2017 and 2016 (Unaudited, in thousands of US dollars, unless otherwise indicated)

15. Additional Information Relating to Cash Flows

	First Quarter	
	2017	2016
	$	$
Changes in Non-Cash Operating Working Capital Items		
Decrease (Increase) in Assets		
Accounts Receivable	**1,811**	(1,593)
Inventories	**(372)**	(719)
Prepaid Expenses	**(88)**	(23)
Increase (Decrease) in Liabilities		
Accounts Payable and Accrued Liabilities	**476**	715
Warranty Provision	**153**	165
Current Deferred Revenues	**79**	149
Non-Current Deferred revenues related to the License Fee	**(294)**	(300)
	1,765	(1,606)
Warrants exercised receivable	**-**	(50)
	1,765	(1,656)
Research and Development Tax Credits		
Received	**-**	199

16. Segmented Information

The Company is structured as a single operating segment.

	March 31, 2017				March 31, 2016			
	Revenues	**Inventories**	**Property, Plant and Equipment**	**Intangible Assets**	Revenues	Inventories	Property, Plant and Equipment	Intangible Assets
Canada and worldwide	**110**	**1,780**	**1,038**	**1,807**	203	1,878	346	1,708
United States	**4,101**	**295**	**1,389**	**113**	2,868	143	83	-
	4,211	**2,075**	**2 ,427**	**1,920**	3,071	2,021	429	1,708

For the first quarter of 2017, revenue from Getinge represented 99% of the Company's total revenues in conjunction with the Getinge Agreement (93% for the same period in 2016). Shipments to Getinge were made in the United States, in Europe and in Canada.

Notes to the Interim Condensed Consolidated Financial Statements

Periods ended March 31, 2017 and 2016 (Unaudited, in thousands of US dollars, unless otherwise indicated)

17. Income (Loss) per Share

The following table reconciles the basic and diluted income (loss) per share for the periods ended March 31:

In thousands of US $, except per share amounts	**2017** **$**	**First Quarter** 2016 $
Net income (loss)		
Basic and Diluted	**(1,980)**	649
Number of Shares		
Weighted Average Number of Outstanding Shares (in thousands)	**91,995**	88,552
Number of Shares		
Weighted Average Number of Outstanding Shares Diluted[(1)] (in thousands)	**91,995**[(1)]	94,257
Income (loss) per Share		
Basic and Diluted	**(0.02)**	0.01
Comprehensive loss per Share		
Basic and Diluted	**(0.02)**	0.01

1) If the Company had a positive profit, the weighted average number of outstanding shares diluted would have been increased by 6.4 million as at March 31, 2017 for the calculation of the diluted net income per share.

18. Approval of Financial Statements

The interim condensed consolidated financial statements were approved by the Board of Directors on May 9, 2017.