2011 ANNUAL REPORT

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MESSAGE FROM THE CHAIRMAN OF THE BOARD

Dear Shareholders,

2011 has seen TSO_3 move forward confidently to deliver the best financial results of its history, after having spent 2009 and 2010 re-inventing itself and its product line. By the end of 2011, the Company had turned its Vision into reality: bringing TSO_3's enhanced sterilization technology to the global marketplace via its commercial partner 3M.

As Chairman, I have seen the Company tackle a number of challenges over the last few years. These inevitable difficulties have made the Company stronger and more capable of dealing with the challenges of growth that it now faces.

Your Board continues to support Management to ensure that timely progress is made to achieve the goals and objectives outlined for the upcoming years. Obtaining regulatory clearance in the US market is a top priority for the Company in 2012, as is assuring that a robust, safe and effective sterilizer is routinely delivered to the customer.

Board committees meet regularly to ensure appropriate corporate governance is in place and amended when improvements are warranted. In addition, the Board's Advisory Committee has been called upon regularly by Management to ensure that, should significant future opportunities for the Company arise, they are considered in due time and with proper attention.

With the Board's oversight, Management is creating the Company's future. There is constant focus on technology, skill development and retention of talent within the Company.

As Chair, I would like to thank my peers, both independent and executive members of the Board as well as Ric Rumble, President and CEO. I am proud to serve on this Board and remain dedicated to representing you, the Shareholders, owners of this Company.

Germain Carrière
Chairman of the Board

MESSAGE FROM THE PRESIDENT AND CEO

Dear Valued Shareholders,

Each year at this time, I have the opportunity to look back at the closing year as a whole and summarize our achievements. Each year has its challenges and successes. My previous quarterly reports outlined some of these challenges, as well as financial results, but here we have an opportunity to put them into the context of the entire year. I am pleased to say that 2011 was a good one for the Company. Clearly the most significant achievement of 2011 is that TSO_3 enjoyed its best year in revenues in its 12-year history.

The year 2011 also saw our commercial partner send our new sterilization technology to sites across the globe; demonstrating the universal appeal of our innovative technology. During the year we shipped more orders than in any previous year with a new focus on consumables. We shipped units to locations where we had never conducted business before. In Canada, we devoted efforts to our original installed-customer base presenting them with an upgraded product with additional capabilities and capacity, which the large majority elected to purchase.

Mid-2011, we filed for commercial clearance on the 3M™ Optreoz™ 125-Z Sterilizer with the United States Regulatory Agency and numerous meetings took place following our submission. These efforts continue in order to reach that major market which will make a significant contribution to sales volumes. As we disclosed in the recent days, dialog with the authorities is ongoing and additional data sets requested by the Agency will be generated and put forward through a follow-up submission.

Lack of product clearance for the United States market creates a different dynamic for both our channel partner and the Company, forcing international sales through the subsidiary network of our channel partner. This, by its very nature, requires additional resources to support these smaller markets. While good progress is being made on the regulatory front, we continued to build on the relationship with our channel partner, looking towards finding the best ways of delivering the product to additional markets in 2012.

Other significant work conducted in 2011 included the ongoing research and development of a second product, which we have referred to as our “OR” product aimed at the operating room sub-sterile area within hospitals. By the end of 2011, we had completed the design and were actively involved in cycle optimization. This project remains a focused opportunity and we continue to pursue our target launch date in the second half of 2012.

It was a busy year and the beginning of a new journey. As always, I wish to acknowledge our dedicated employees and thank them for their efforts throughout that period. I also wish to thank the Board of Directors for their input and support and finally, to our Shareholders, owners of the Company, I wish to thank you for your continued trust.

R.M. (Ric) Rumble
President and Chief Executive Officer

OVERVIEW

Who we are and what we do

TSO_3 was founded in June 1998 in Québec City and currently employs 64 people. The Company’s activities encompass research, development, commercialization and licensing of sterilization processes and accessories for heat-sensitive medical devices.

Initially, TSO_3 developed a unique sterilization process based solely on ozone as the sterilizing agent. It offered major savings over competing low-temperature sterilization methods, greater safety for both users and patients and was considered a “green” technology. However, this first generation product provided limited instrument compatibility and a relatively long sterilization cycle.

The first generation sterilizer received regulatory clearances from both Health Canada and the United States Food and Drug Administration. It also received additional clearances expanding the field of application to a wider range of complex surgical instruments, attesting to the high sterilization efficacy of the TSO_3 sterilization platform.

Despite its significant advantages, this first generation product did not succeed in addressing the overall market needs and therefore had limited commercial success, achieving only 38 sales in North America by TSO_3’s own sales force over a period of five years.

A renewed Company

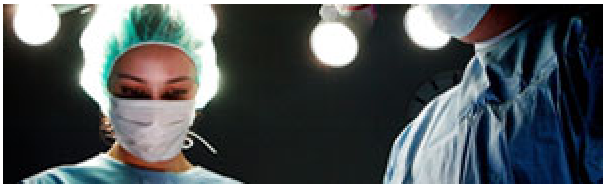
In 2008, TSO_3 welcomed new management team members with extensive experience in the sterilization industry. The team led the development of a new generation sterilizer that would benefit from the already proven superior sterile efficacy of the Company’s technology, while offering increased compatibility and speed, matching the market’s expectations for high-throughput of expensive and high-demand complex medical devices.

The new STERIZONE® 125L+ Sterilizer developed in 2009 uses a combination of hydrogen peroxide and ozone as well as a DYNAMIC Sterilant Delivery System™. This increases cycle speed, as well as compatibility with a wide range of instruments - including some of the most complex and delicate instruments used in Minimally Invasive Surgeries (MIS).

The STERIZONE® 125L+ Sterilizer offers efficacious and high-throughput, low-temperature sterilization for the high turnover volume requirements of the hospital’s Central Sterile Department and enables the replacement of a combination of competitive sterilization methods.

The STERIZONE® 125L+ Sterilizer is covered under a global license agreement for worldwide commercialization to healthcare settings by 3M™ Infection Prevention Division under the brand 3M™ Optreoz™ 125-Z Sterilizer.

Our 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. This increases patient hospital stays, drives up the cost of care and can lead to increased mortality rates.

The growing and aging population worldwide (65 years +) demands more OR time, which in turn creates greater and growing demand for efficacious and high-throughput sterilization methods.

Today, it is not uncommon to find sterile reprocessing of instruments conducted in three areas of the hospital. These are: 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 as such, 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 those of the past. Today, the trend continues towards the practice of minimally invasive surgery (MIS). Devices used in MIS are complex, expensive and delicate, and in most cases, do not tolerate the steam sterilization process. These high-demand devices are a challenge for sterilization and are a major financial investment for hospitals.

Our competitive landscape

The Company competes in an industry characterized by both multinational and regional companies that market low temperature sterilization technologies. The main players in this space are STERIS Corporation, Johnson & Johnson, 3M™ Company and Getinge.

The low-temperature gas sterilization methods most commonly used today are Ethylene Oxide (EtO) and Hydrogen Peroxide (H_2O_2) sterilization systems. These methods both offer "terminal sterilization" referring to the instruments being packaged and therefore, remaining sterile until opened at the surgical site. However, EtO is a toxic gas which requires aeration time for desorption of the chemistry; this keeps expensive stock of medical devices captive for periods of 16 to 30 hours. H_2O_2, on the other hand, is fast but very expensive, and has limits based on efficacy and loading capacity.

Another method playing an important role in a sub-segment of low temperature sterilization is Liquid Chemical Sterilization. This type of procedure is located directly in the OR as a just-in-time method to complement the CS Department's sterile production. The GI department is also a heavy user of Liquid Chemical Sterilization. Liquid systems are not terminal and require rinsing with extensively treated water that cannot be assured to be sterile. As such, instruments cannot be assured to be sterile when used on a patient.

These products each offer 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. Therefore, customers have to purchase and support a combination of products to meet their daily requirements for sterile supplies.

2011 ANNUAL REVIEW

Shipments of 3M™ Optreoz™ 125-Z Sterilizers to worldwide locations

After the first shipments in Q2 2011 of 3M™ Optreoz™ 125-Z Sterilizers for installation at Canadian customer locations, in second half 2011 the Company initiated shipments to worldwide locations, where regulatory clearances had been received.

Regulatory status

TSO_3 currently holds commercial clearance in Canada and Europe for its sterilizer sold under the brand 3M™ Optreoz™ 125-Z, as well as its accessories and consumables.

Just as a reminder, mid-year 2010, the US Regulatory Agency announced that it was changing its processes and expectations for products seeking 510(k) clearance. The Agency's goal is to make this process more predictable through more discussions and meetings up-front, before submittals take place.

After several productive discussions and meetings with the regulators, TSO_3 submitted a new request for market clearance of the 3M™ Optreoz™ 125-Z Sterilizer late in June 2011. TSO_3 is still actively pursuing US regulatory clearance and remains confident in receiving such clearance.

Expanding the portfolio of products

In order to add to its revenue stream, TSO_3 has initiated the development of more products based on its patented STERIZONE® technology. The terminal sterilization solution developed by TSO_3 can be favorably applied to multiple segments of the low-temperature sterilization market.

Late in 2011, TSO_3 finalized the electromechanical design of a second product based on the Company's core technology and intended for the OR Sub-Sterile area. To this end, TSO_3 and 3M announced Mid-2011, an amendment to the initial agreement, providing 3M commercial rights to this product currently under development. TSO_3 is still targeting initial commercial activity in the second half of 2012.

Changing structure and skills to enable growth

During the past year and a half, the Company has gradually shifted spending from Sales and Marketing functions to Research and Development functions, supporting its changing approach where the Company develops superior and innovative sterile reprocessing solutions for medical devices, and offers these solutions through licensing agreements to capable channel partners for global commercial reach. In 2011, the Company welcomed additional new employees, to further reinforce production and quality activities in support to the 3M™ Optreoz™ 125-Z, as well as R&D activities.

Our current business plan (2010 – 2012) includes the following priorities:

- Support 3M™ in launching the 3M™ Optreoz™ 125-Z Sterilizer in cleared markets;
- Obtain United States regulatory clearance for 3M to access this market;
- Freeze development of additional product intended for the OR Sub-Sterile Area and initiate commercial activities;
- Continue reinforcing organizational structure through alignment and addition of talent and skills;
- Explore additional opportunities to increase revenue streams.

MANAGEMENT DISCUSSION AND ANALYSIS

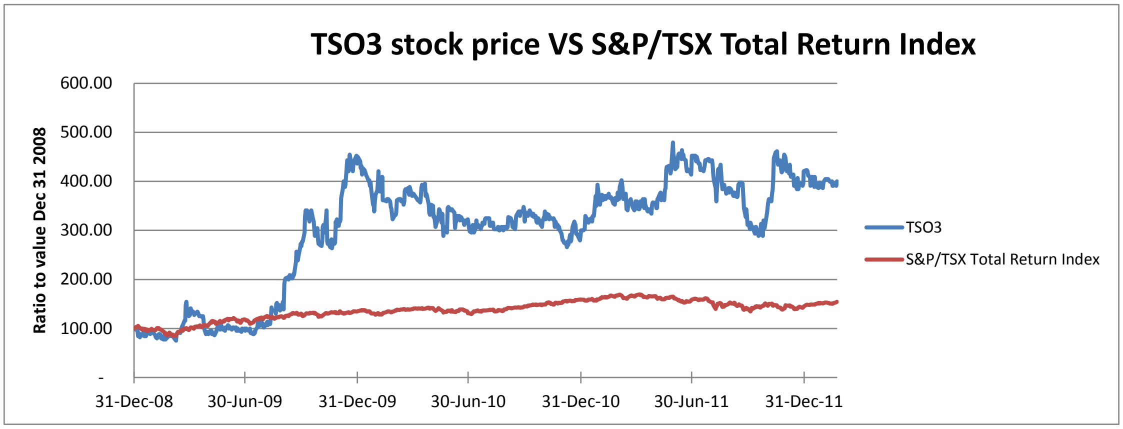
The Management discussion and analysis (MD&A) is intended to help the readers to assess, through the eyes of management, the financial position and results of operations of TSO_3 Inc. ("TSO_3" or the "Company") for the twelve-month periods ended December 31, 2011.This information is dated March 13, 2012 and should be read in conjunction with the Annual Audited Financial Statements and the accompanying notes. Unless specified otherwise, the amounts are stated in Canadian dollars.

The financial information contained in this MD&A and in the company's Audited financial Statements reflects the Company's transition to the International Financial Reporting Standards ("IFRS"), and is in compliance with International Accounting Standard 34 - Interim Financial Reporting ("IAS 34"). The comparative figures have been restated for a presentation on an IFRS basis. The impacts of IFRS adoption are described in detail in the MD&A and in the note 25 of the Annual Audited Financial Statements. Our financial statements are now prepared on an IFRS basis.

The Annual Audited Financial Statements, accompanying notes and MD&A have been reviewed by the Audit Committee of TSO_3 and approved by the Board of Directors.

This MD&A contains forward-looking information. Additional information about the forward-looking information as well as the associated risks and uncertainties can be found on pages 25 to 29 of the report.

FINANCIAL HIGHLIGHTS



The above graph compares TSO_3's stock price against the S&P/TSX Total Return Index and has been constructed by investing on December 31, 2008 $100 in TSO_3 shares and $100 in the S&P/TSX Total Return Index. The date of December 31, 2008 was chosen because it was in 2008 that a new management team was appointed at TSO_3 and a new business plan implemented.

On December 31, 2011, the portfolio invested in TSO_3 shares was worth $420.45, or a compounded annual return of 61.4%, whereas the portfolio invested in the S&P/TSX Total Return Index was worth $145.00, or a 13.2% compounded annual return.

The Company's financial performance in 2011 is the direct result of two commercial events: (i) beginning with the end of Q2-2011, the initial commercial shipments of the Optreoz Sterilizer in markets where the product had received regulatory approval, and (ii) the launch at the end of Q3-2011 of an upgrade program enabling Canadian users to trade in their 125L Ozone Sterilizer (the former sterilizer product of the Company) for the 3M™ Optreoz™ 125-Z Sterilizer (the "Optreoz Sterilizer").

The revenue of TSO_3 increased in Q2-2011 compared to Q2-2010 due to the initial shipments of the new sterilizer. A further increase was achieved in Q3-2011 due to additional shipments directed at end-users, as well as initial shipments of consumables. It was not until the end of Q4-2011 that sales were stimulated by the upgrade program launched at the end of Q3-2011, which explains the increase in sales in Q4-2011 compared to Q3-2011.

Just 6 months after the commercial launch of the Optreoz Sterilizer, fourth quarter sales were the highest quarterly sales ever achieved by the Company and the annual sales, the largest since the Company was created.

Fiscal year 2011 was therefore marked by the commercial launch of the Optreoz Sterilizer. This led to additional expenses incurred by TSO_3 in order to support marketing efforts of 3M, TSO_3's channel partner. In parallel, the Company has been developing a new product targeting the sub-sterile area of the operating room. In June 2011, the marketing agreement with 3M was amended to include the new product, for which initial commercial activities are targeted at the second half of 2012.

The significant increase in working capital, sales, and expenses, particularly operating expenses and research and development, experienced in 2011 are therefore explained by the commercial launch of the Optreoz in June 2011, the upgrade program and the resources allocated by TSO_3 to support the marketing efforts of 3M.

SUMMARY OF RESULTS

Years end December 31

(Audited, IFRS Basis)

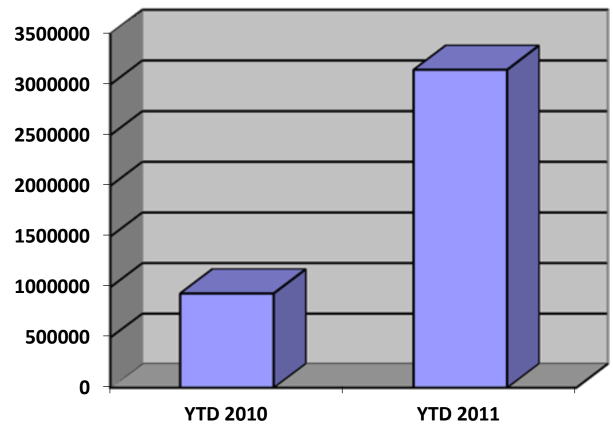
	2011 $	2010 $
Revenues		
Sales	**3,145,162**	939,285
License Revenue	**210,275**	201,504
Total Revenues	**3,355,437**	1,140,789
Expenses		
Operating	**3,480,520**	1,628,006
Sales and Marketing	**412,720**	987,995
Research and Development	**3,811,013**	3,014,198
Administrative	**3,473,215**	3,355,725
Financial Revenues	**(194,247)**	(131,970)
Financial Expenses	**27,637**	51,055
Total Expenses	**11,010,858**	8,905,009
Net Loss before Income Taxes	**7,655,421**	7,764,220
Income Taxes	**-**	**-**
Net Loss and Comprehensive Loss	**7,655,421**	7,764,220
Basic and Diluted Net Loss per Share	**0.13**	0.14
Weighted Average Number of Shares Outstanding	**58,289,996**	56,281,313

RESULTS ANALYSIS

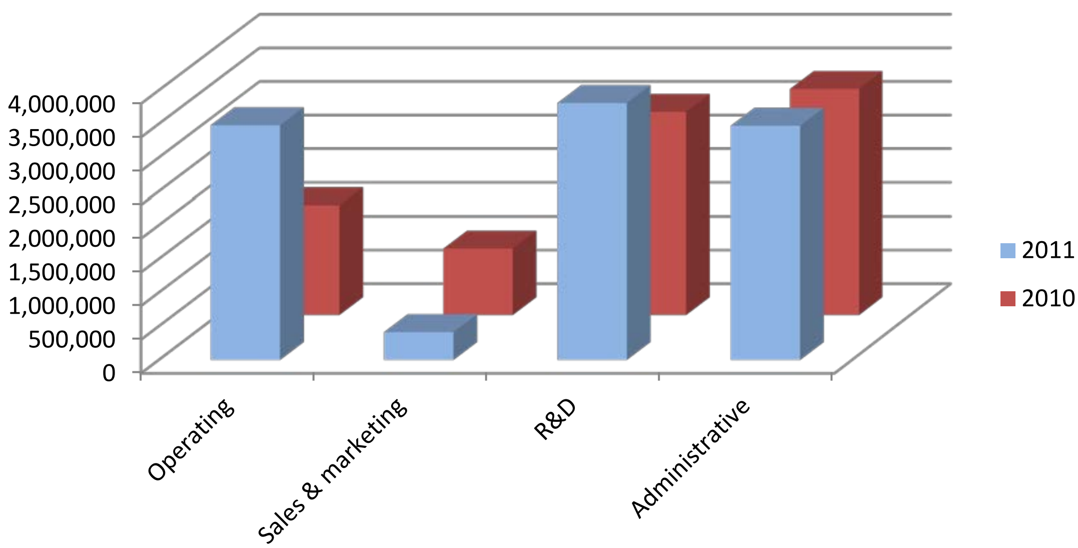
In the following paragraphs, the Company analyzes the variations between periods ended December 31, 2011 and 2010.

TOTAL REVENUES

For the fiscal year 2011, sales of sterilizers, consumable supplies, accessories, service contracts, training, after-sales service and record of license revenues amounted to $3,355,437, as compared to $1,140,789 in 2010. The increase in revenues was driven by an increase in the volume of sterilizers sold in 2011.



EXPENSES



Operating

For the fiscal year ending December 31, 2011, the operating expenses amounted to $3,480,520, as compared to $1,628,006 in 2010. Most of the increase is directly related to higher sales, but it also includes a $288,972 write-down of raw material inventories related to the original 125L Ozone Sterilizer which is no longer in production and whose servicing needs will be reduced as the installed base of 38 sterilizers is reduced through attrition, including through the upgrade program launched in Q3 2011. The manufacturing of new generation units and the related consumables, as well as the assistance given to 3M for product launch and installation of sterilizers, constituted the majority of activities during 2011.

On a year-to-year basis, operating expenses increased proportionally less than revenues, reflecting the fact that fixed costs were absorbed by a larger volume and that sales in 2011 included higher margin consumable supplies required to use the 3M™ Optreoz™ 125-Z Sterilizer.

Sales and Marketing

For the fiscal year ending December 31, 2011, the sales and marketing expenses amounted to $412,720, as compared to $987,995 in 2010. The decrease is due to a scale-down of that department, resulting in a decrease in salaries, fringe benefits and traveling expenses, since these activities are now under the responsibility of 3M. On the other hand, costs related to website development have increased due to the complete redesign of the Company's website in 2011.

Research and Development

For the fiscal year ending December 31, 2011, the research and development expenses, amounted to $3,811,013, as compared to $3,014,198 in 2010. The higher research and development expenses are the result of an increase in efficacy and compatibility tests for various surgical instruments undertaken in parallel to the commercial launch of the 3M™ Optreoz™ 125-Z Sterilizer and the development of a new sterilizer product for the operating room. That work required the hiring of new resources, the use of subcontractors, and the purchase, maintenance and repairs of endoscopes and other expensive surgical instruments.

Administrative

For the fiscal year ending December 31, 2011, the administrative expenses amounted to $3,473,215, as compared to $3,355,725 in 2010.

FINANCIAL POSITION ANALYSIS

(Audited, IFRS Basis)

	2011 $	2010 $
Cash and Cash Equivalents	**8,782,207**	6,115,297
Temporary Investments	**2,602,166**	13,004,710
Accounts Receivable	**1,893,470**	437,816
Inventories	**1,120,482**	1,460,304
Property, Plant and Equipment	**1,218,381**	896,887
Intangible Assets	**3,226,735**	3,400,179
Accounts Payable and accrued liabilities	**1,231,201**	1,173,855
Warranty Provision	**88,972**	27,189
Deferred Revenues (Current and Non-Current)	**1,906,520**	2,263,042
Equity	**15,693,763**	21,909,619

Liquid Assets

As of December 31, 2011, cash, cash equivalents and temporary investments amounted to $11,384,373, as compared to $19,120,007 as at December 31, 2010. This decrease reflects the absorption of cash by the operations and working capital. The decrease in liquidity was partly offset by the exercise of 750,000 warrants in 2011.

Accounts Receivable

From their level of $437,816 on December 31, 2010, the accounts receivable increased to $1,893,470 on December 31, 2011. The December 2011 amount includes a $589,200 provision for R&D tax credits or an increase of $284,200 over the corresponding provision of $305,000 in December 2010. That increase reflects the fact that, as at December 31, 2011, the tax credits for 2010 had not yet been received from the tax authorities.

The substantial increase in trade receivables since December 2010 was caused by larger sales of sterilizers and consumable supplies made in Q4-2011 as compared with Q4-2010, with a good portion of the Q4-2011 sales made under the upgrade program launched at the end of Q3-2011 and targeting hospitals in Canada.

Inventories

As at December 31, 2011, inventories amounted to $1,120,482, as compared with $1,460,304 on December 31, 2010. The variations over the year is the result of (1) a $288,972 write-down of slow moving raw material inventories related to the STERIZONE® 125L Sterilizer, (2) a transfer to fixed assets of 3M™ Optreoz™ 125-Z Sterilizers worth $532,033 that were previously accounted for as part of inventories but which are being now used to conduct efficacy and compatibility tests as part of the research and development efforts, and (3) an increase in inventories of $481,183 since December 31, 2010 in order to support the ramp-up in production which started at the end of the second quarter of 2011. Since the sterilizers which were transferred to research and development had been manufactured for sale, that inventory had to be replaced and is included in the $481,183 representing the “Net additions to inventories”.

	2011 **$**	2010 $
Inventories at the beginning of the period	**1,460,304**	1,483,810
Write-down of raw material inventories	**(288,972)**	(84,523)
Transfer to fixed assets	**(532,033)**	-
Net addition to inventories	**481,183**	61,017
Inventories as at December 31	**1,120,482**	1,460,304

In manufacturing the 3M™ Optreoz™ 125-Z Sterilizer, the Company uses several components that were also used in manufacturing the older generation sterilizer. As it is replacing some of these components by more cost effective ones, it is continuously reassessing the suitability of the inventory of the older generation components for its current product mix.

Accounts Payable and Accrued Liabilities

Accounts Payable and Accrued Liabilities increased from $1,173,855 on December 31, 2010 to $1,231,201 on December 31, 2011. The bulk of that increase is due to higher accrued expenses.

Fixed Assets

During 2011, the Company added $737,818 to its fixed assets, including $532,033 added to sterilizers used within its R&D activities and $97,560 in medical devices used as part of its tests for efficacy and compatibility. In 2010, additions to fixed assets were $291,331 out of which $156,116 was added to the stock of medical devices. In 2011, the Company wrote-off an amount of $168,969 ($177,766 in 2010) for sterilizers of the former generation which were no longer used in its R&D activities.

Warranty Provision

The warranty provision increased from $27,189 on December 31, 2010 to $88,972 on December 31, 2011 as a result of the commercial launch of the 3M™ Optreoz™ 125-Z Sterilizer at the end of Q2 2011.

Deferred Revenues

Current and non-current deferred revenues, as of December 31, 2011, amounted to $1,906,520 compared to $2,263,042 as of December 31, 2010. The item “deferred revenues” reflects financial transactions related to license revenues and service contracts not yet recognized as revenue. Out of the deferred revenues of $1,906,520 as of December 31, 2011, an amount of $1,690,971 represented deferred revenues that were created when the agreement was signed with the 3M Company and which are amortized over the original term of that agreement.

Shareholders’ Equity

During 2011, shareholders' equity decreased by $6,215,856, from a balance of $21,909,619 on December 31, 2010 to $15,693,763 on December 31, 2011. This decrease was primarily the result of the absorption of the $7,655,421 loss from operations partially offset by the $1,853,015 proceeds from the exercise of stock options and warrants. The shareholder's equity balance of $21,909,619 as at December 31, 2010 reflects the adjustment of $223,729 made as a result of the retroactive impact of the adoption of the IFRS accounting standards. During 2010, shareholders' equity increased by $7,177,322 as a result of the $7,764,220 loss realized in 2010 which was more than offset by an increase of $14,855,421 due to the proceeds from a stock issue and the exercise of stock options in 2010.

CASH FLOWS ANALYSIS

(Audited, IFRS Basis)

	2011 **$**	2010 $
Operating Activities	**(8,644,500)**	(5,856,733)
Investing Activities	**10,092,882**	(6,545,390)
Financing Activities	**1,218,528**	14,788,263

Operating Activities

Cash absorbed by operating activities amounted to $8,644,500 for the fiscal year ending December 31, 2011, as compared to $5,856,733 in 2010. The increase in cash absorbed by operations was primarily due to an increase in operating working capital items, namely by accounts receivable and such increase was the direct consequences of the higher sales recorded by the Company in 2011. As discussed earlier, the decrease in inventories is due to the write-down of slow moving inventories.

Investing Activities

For the fiscal year ending December 31, 2011, cash flows generated by investing activities amounted to $10,092,882 as compared to an absorption of $6,545,390 for the same period in 2010. The variance is explained by of the monetization of investments during fiscal 2011.

Financing Activities

For the fiscal year ending December 31, 2011, cash flows from financing activities amounted to $1,218,528, as compared to $14,788,263 for the same period in 2010. In 2011, $1,200,000 was obtained from the proceeds of an exercise of warrants and, in 2010, an amount of $14,678,538 was obtained from the net proceeds of a stock issue.

SUMMARY OF QUARTERLY RESULTS

(Unaudited, IFRS Basis)

This table shows the quarterly evolution of sales, net losses and net losses per share. The 2010 figures have been restated to reflect the adjustments resulting from IFRS accounting standards.

($000 except loss/share)	2011				2010			
	Q4	**Q3**	**Q2**	**Q1**	Q4	Q3	Q2	Q1
Total Revenues	**1,309**	**1,153**	**703**	**189**	231	176	546	188
Net Loss	**1,398**	**2,261**	**2,116**	**1,880**	1,723	2,055	1,929	2,057
Net Loss per Share (basic and diluted)	**0.02**	**0.04**	**0.04**	**0.03**	0.03	0.04	0.03	0.04

FOURTH QUARTER ANALYSIS

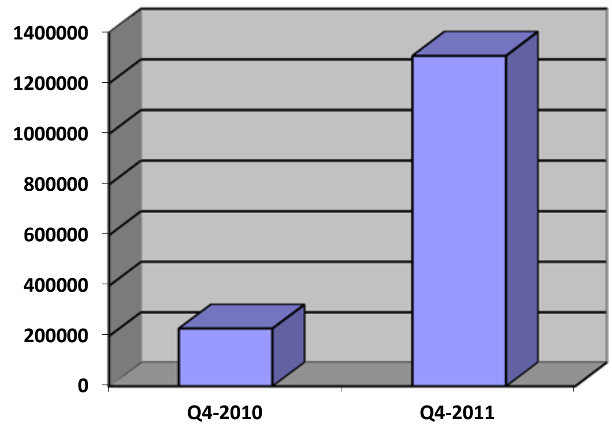
(Unaudited, IFRS Basis)

Three-month period ending December 31, 2011, compared to the three-month period ending December 31, 2010.

	2011 $	2010 $
Revenues		
Sales	**1,256,854**	177,945
License Revenue	**52,569**	52,569
Total Revenues	**1,309,423**	230,514
Expenses		
Operating	**1,239,630**	448,915
Sales and Marketing	**13,973**	113,759
Research and Development	**776,824**	695,857
Administrative	**713,074**	744,347
Financial Revenues	**(39,952)**	(60,849)
Financial Expenses	**4,067**	10,996
Total Expenses	**2,707,616**	1,953,025
Net Loss before Income Taxes	**1,398,193**	1,722,511
Income Taxes	**-**	-
Net Loss and Comprehensive Loss	**1,398,193**	1,722,511
Basic and Diluted Net Loss per Share	**0.02**	0.03
Weighted Average Number of Shares Outstanding	**58,782,423**	58,020,364

TOTAL REVENUES

For the three-month period ending December 31, 2011, total revenues amounted to $1,309,423 representing the sale of sterilizers, consumable supplies, accessories, service contracts, training and after-sales service, and license revenues as compared to $230,514 for the corresponding period in 2010. The variation in the yearly revenue was caused by the commercial launch of the 3M™ Optreoz™ 125-Z at the end of Q2-2011.



EXPENSES

Operating

For the three-month period ending December 31, 2011, operating expenses amounted to $1,239,630 compared to $448,915 for the same period in 2010. The primary causes for the increase in operating expenses were direct costs incurred to support the increase in sales.

Sales and Marketing

For the three-month period ending December 31, 2011, sales and marketing expenses amounted to $13,973 compared to $113,759 for the same period in 2010. The decrease is due to a scale-down of that department, resulting in a decrease in salaries, fringe benefits and traveling expenses, since these activities are now under the responsibility of 3M Company.

Research and Development

For the three-month period ending December 31, 2011, research and development expenses amounted to $776,824 compared to $695,857 for the same period in 2010. The higher research and development expenses are the result of an increase in efficacy and compatibility tests for various surgical instruments undertaken in parallel to the commercial launch of the 3M™ Optreoz™ 125-Z Sterilizer and the development of a new sterilizer product for the operating room. That work required the hiring of new resources, the use of subcontractors, and the purchase, maintenance and repairs of endoscopes and other expensive surgical instruments.

Administrative

For the three-month period ending December 31, 2011, administrative expenses amounted to $713,074 compared to $744,347 for the same period in 2010. The difference between the two periods is primarily explained by a decrease in professional and consulting fees.

Net Loss

For the three-month period ending December 31, 2011, the Company recorded a net loss of $1,398,193, or $0.02 per share, compared to a net loss of $1,722,511 or $0.03 per share for the same period in 2010.

CASH FLOWS ANALYSIS

(Unaudited, IFRS Basis)

	2011 **$**	2010 $
Operating Activities	**(1,447,640)**	(1,130,800)
Investing Activities	**(38,999)**	2,818,013
Financing Activities	**9,665**	4,880

Operating Activities

Cash absorbed by operating activities amounted to $1,447,640 for the three-month period ending December 31, 2011, as compared to $1,130,800 for the same period in 2010 . The increase in cash absorbed by operations was primarily due to an increase in operating working capital in Q4-2011 as compared with Q4-2010. The latter was a direct consequence of the highest quarterly sales in its history that the company has realized in Q4-2011.

Investing Activities

For the three-month period ending December 31, 2011, cash flows absorbed by investing activities amounted to $38,999 as compared to a cash generation of $2,818,013 for the same period in 2010. The variance is explained by the monetization of investments in 2010.

Financing Activities

For the three month period ending December 31, 2011, cash flows from financing activities amounted to $9,665, as compared to $4,880 for the same period in 2010.

SEGMENTED INFORMATION

The Company is structured as a single operating segment.

Almost all fixed assets of the Company are located in Canada.

Operating revenues are allocated between geographic areas based on the location of the client and are as follows for periods ended December 31:

	FOURTH QUARTER				**TWELVE MONTHS**			
	2011		2010		**2011**		2010	
	$	**%**	**$**	**%**	**$**	**%**	$	%
Canada	**1,089,064**	**87**	68,237	38	**2,667,751**	**85**	237,554	25
Worldwide	**167,790**	**13**	109,708	62	**477,411**	**15**	701,731	75
	1,256,854	**100**	177,945	100	**3,145,162**	**100**	939,285	100

The Company earns an important part of its revenues from its a long-term commercial agreement with 3M. For 2011, these revenues represented 55% of the Company's sales (52% for the same period in 2010). Shipments to that client were made in Canada and elsewhere in the world outside the US.

For the quarter ended December 31, 2011, an amount of $52,569 in license revenues ($52,569 for the same period in 2010) also resulted from that commercial agreement (see note 12).

CONTRACTUAL COMMITMENTS

As of December 31, 2011, the contractual commitments in the fiscal years to come are as follows:

	2012	**2013**	**2014**	**2015**
	$	**$**	**$**	**$**
Operating leases and service contracts	54,773	6,755	843	843

OFF-BALANCE SHEET ARRANGEMENT

The Company made no off-balance sheet arrangement during the fiscal year 2011.

CAPITAL RESOURCES

The Company primarily uses its capital to finance operating expenses, commercialization expenses, marketing expenses, R&D expenses, administrative expenses, working capital and capital expenditures.

In the past, the Company has funded its activities through several rounds of public and private financing, as well as from various government subsidies. Depending on its capacities and prevailing market conditions, the Company could finance all or a portion of its non-current assets through long-term debt.

For the twelve-month period ending December 31, 2011, the average monthly burn-rate was $746,180, as compared with $528,342 in 2010. At the $746,180 monthly burn rate, the December 31, 2011 liquidities of $11,384,373 would be sufficient to finance its activities until the beginning of 2013.

The Company invests its liquidities in highly-liquid, short and medium term investments as required by its Investment Policy (see section on Risk Factors). These securities are chosen on the basis of foreseen cash requirements and safety. Income generated from the investments is a secondary consideration.

As at December 31, 2011, the number of outstanding shares was 58,785,682.

ACCOUNTING POLICIES

See note 2 and 3 of our audited financial statements for the year ended December 31, 2011 for a detailed presentation of accounting policies, critical accounting judgments, key source of estimation uncertainty and futures accounting changes.

ADOPTION OF IFRS – IMPACTS

As stated by the Canadian Accounting Standards Board, the Company was required to adopt the IFRS for its interim and annual financial statements beginning January 1, 2011 and to provide a restated comparative statement in accordance with IFRS.

The following paragraphs summarizes the impact of IFRS adoption on the financial statements of the Company and are intended to supplement the information and conciliation tables presented in the accompanying note 25 of the audited financial statements for year ended December 31, 2011.

Initial elections upon adoption

Note 25 explains in detail the choices made by management concerning the IFRS 1 - First-time adoption of International Financial Reporting Standards. These choices concern the stock option costs, the deemed cost of property, plant and equipment, the designation of financial instruments and the business combination accounting treatment on the transition date, and have been made taking into considering the accounting policies already used. For this reason, these choices have no significant impact for the Company.

Presentation and reclassifications

One of the changes brought about by the IFRS standards concerns the presentation of transactions affecting the equity. In our previous presentation conforming to Canadian Generally Accepted Accounting Principles (GAAP), these transactions were presented in two separate statements of the financial statement, namely the statement of contributed surplus and the statement of deficit. The transactions affecting share capital were explained in notes in the financial statements, and directly impacted share capital in the balance sheet. Our new presentation, required under IFRS, regroups these transactions into one statement, the statement of changes in equity. In order to adopt this new presentation, the Company has reviewed the nature of the elements comprising the balance of contributed surplus and deficit to January 1, 2010, the transition date, and has reclassified these items in separate sections according to their nature. The statement of changes in equity presents therefore four distinct headings: Share Capital, Reserve related to stock options plan, Reserve related to warrants and the Deficit. Other headings may be added in the future according to the transactions to be recorded.

A further impact relates to the presentation of the statement of loss and comprehensive loss. The Company had the choice between a presentation by function and a presentation based on the nature of expenses. The Company retained the presentation by function, as it considers that it allows a better understanding of the specific activities of the Company. This presentation, similar to that previously used, resulted in the reclassification of items included under heading “Other income” as described hereafter, and consequently, the elimination of this heading:

- The license revenues (formerly known as “Amortization of long term Deferred Revenues”): Presented separately in the Statement of Loss and Comprehensive Loss;
- The research and development tax credits: Presented as a reduction to the Research and Development Expenses;
- The investment income and the change in the value of investments: Grouped under the heading “Financial Revenues”;
- The bank charges and foreign exchange gains or losses: Grouped under the heading “Financial Expenses”;
- The loss or gain on disposal of property, plant and equipment and other revenues: Reclassified under other functions to which they belong.

Finally, the Company has presented separately, in the statement of financial position, the accounting provision related to the one-year warranty, conforming to the requirements of IAS 37 – Provisions, contingent liabilities and contingent assets.

Changes in accounting policies and financial adjustments

As explained in the 2010 Annual Report, the Company has determined the impact of certain accounting modifications required by IFRS and has made the necessary adjustments on the opening balance of the deficit of January 1, 2010, when judged material.

Under IFRS 2 – Share-based payment, the Company has recalculated the cumulative stock-based compensation expense related to the options granted since January 1, 2007, taking into account for the expectation that some of the options will never vest. This expectation has been calculated on the basis of historical data broken down by employee categories (regular employees, directors and officers). Based on these calculations, the Company has determined that the impact would not be significant and consequently, has not made a corresponding adjustment on the opening balance of Deficit for January1,2010.

Under IAS 16 – Property, plant and equipment, the Company has the obligation to amortize separately the different components of property, plant and equipment according to their own useful life. After a detailed analysis of the tangible assets held on the transition date and on January 1, 2011, the Company has concluded that there is no significant component having a useful life expectancy different from the remainder of the asset. However based on this analysis, the Company has decided to regroup in the same category all hospital equipment (endoscopes, gastroscopes, etc.).

The Company has decided to use the straight-line method instead of the diminishing balance method to depreciate its fixed assets. The Company considers that the straight-line method provides more reliable and relevant information about the real effect of the consumption of asset's future economic benefits requested by IAS 16. For this reason, the modification of the depreciation method has been considered as a change in accounting policies and has been applied retrospectively. The financial impact of this change is $133,230 on the opening balance of Deficit on January 1, 2010.

RISK FACTORS

Investors should understand that the Company operates in a high risk industry. The Company has identified the following risks and uncertainties that may have a material adverse effect on its business, financial condition or results. Investors should carefully consider the risks described below before purchasing securities of the Company. The risks described below are not the only ones the Company faces. Additional risks not currently known to the Company or believed to be immaterial may also significantly impair its business operations.

Risk associated with Commercial Operations

TSO_3 has a commercial agreement with 3M™ Infection Prevention Division for the marketing, sales and service of its new generation sterilizer. While the agreement outlines roles, responsibilities and expectations of both TSO_3 and 3M, 3M retains all responsibility concerning customers. The schedules, difficulties to meet the requirements of regulatory authorities, changes in foreign trade policies, fluctuations of foreign exchanges rates, political instability could, amongst others, negatively affect the commercial activities and the agreement between TSO_3 and 3M.

Compatibility, Biocompatibility and Research and Development Projects

All sterilization processes can affect medical instruments or alter their key properties over a period of time. Taking into consideration the nature of the devices to be sterilized and the oxidative effects on devices in contact with ozone and hydrogen peroxide, TSO_3 limits to a minimum the frequency and duration that the devices are exposed to ozone and hydrogen peroxide. Nevertheless, oxidization can produce several effects, depending on the material. In order to fully establish the true commercial value of its sterilization process, the Company must demonstrate the compatibility of its technology with a wide range of medical instruments. Even though the tests and studies undertaken to date by TSO_3 have shown that its STERIZONE® sterilization process is compatible with the majority of medical instruments currently used in the hospital environment, the Company must maintain ongoing studies in this respect. Conversely, the Company cannot guarantee the success of its research and development projects.

Dependency on Key Personnel

TSO_3 believes that its success will continue to depend on its ability to attract and retain qualified managers and other key personnel. Losing a key employee could have a major negative impact on TSO_3. Management has reviewed its succession plan in 2011 of all senior level management.

Management of Business Growth

Achieving its short-term objectives could launch the Company into a phase of significant and rapid growth and force it to considerably increase its personnel, the number of partners, operating capacity, and financing requirements.

Intellectual Property and Counterfeiting Risks

The success of the Company is based on its unique technology. TSO_3 relies on a combination of patents, trade secrets, non-disclosure agreements and various contractual provisions in order to protect its technology. Nothing guarantees that these measures will be sufficient to protect any illegal appropriation or infringement of its technology by a third party.

Competition Risks

The Company's products face intense competition. Many of the Company's competitors have greater financial resources and marketing capabilities than TSO_3, and potentially that our channel partner may make available to our common commercial venture. TSO_3's competitors and potential competitors may succeed in developing products and processes that are more effective and less expensive to use than any products or processes the Company may develop or license, or that may render TSO_3's products or processes obsolete. The high level of competition in the sterilization industry could force the Company to reduce the price at which it sells its products.

Product Liability Issues

In the health sector, lawsuits, often claiming substantial damages, are becoming increasingly common. In particular, in the United States, lawsuits are filed by patients, employees or beneficiaries against healthcare providers, as well as authorities operating and managing hospitals in the private and public sectors. During these proceedings, claimants could allege and blame the non-sterility of certain instruments or defective functioning of products sold, installed or derived from TSO_3 technology. To address the problems associated with such lawsuits, the Company is maintaining an insurance coverage.

Regulatory Approvals

Sterilizers are subject to regulatory clearances within individual markets. As such, they are evaluated for compliance with established consensus standards. When a new technology is involved, there is no such standard. In such a case, a manufacturer must identify an existing "predicate" device from which to compare the new technology. The Company has effectively demonstrated such "predicate" devices in the past concerning the first generation sterilizer. While the Company believes that it is taking all appropriate steps to support existing and future submissions for regulatory clearance, it can not guarantee when, or if, such clearances will be received.

Financial Instruments

The Company is exposed to various risks, including the risks related to holding financial instruments. To manage the risk related to the use of financial instruments contained in the various investments that make up cash equivalents and temporary investments, controls have been implemented, in particular the Investment Policy. The measures aim primarily to optimize returns from cash flow while reducing the Company's main risk exposures, which are described below:

Market risk

Market risk is the risk that the value of a financial instrument will fluctuate as a result of changes in the parameters underlying its measurement, particularly interest rates and market prices.

Interest rate risk

Interest rate risk exists when interest rate fluctuations modify the cash flows of the Company's investments, including the price at which an investment could be sold.

On December 31, 2011, if the base rate on that date had been 0.5% lower, and all other variables held constant, the net loss and comprehensive loss would have been $3,093 lower, arising mainly as a result of an increase in the fair value of fixed rate financial assets classified as held for trading. If the base rates on that date had been 0.5% higher, all other variables being held constant, the net loss and comprehensive loss would have been $3,110 higher, arising mainly as a result of a decrease in the fair value of fixed rate financial assets classified as held for trading. The net loss and comprehensive loss therefore have a similar sensitivity to interest rate increases and interest rate decreases because of investments with capped interest rates.

Credit risk

The use of financial instruments can create a credit risk in which there is a risk of financial loss resulting from a counterparty's inability or refusal to fully meet its contractual obligations. The Company's maximum exposure to credit risk is equal to the amounts recognized as accounts receivables, cash equivalent and temporary investments. The Company has established an Investment Policy that addresses credit risk management and includes the authorization to perform investment transactions with the Canadian federal or provincial governments, crown corporations, municipalities or financial institutions, either in money market funds, guaranteed investment certificates or bonds with credit ratings of a minimum of A- or better according to the rating scale of Standard and Poor's or the equivalent for other credit rating agency. This Policy defines credit risk limits based on the characteristics of the counterparties. Therefore, the Company manages credit risk by complying with its established Investment Policy.

As at December 31, 2011, the Company's investments were rated by two recognized agencies, and they were in conformity with the Company's Investment Policy.

Concentration risk

Concentration risk exists when investments are made with multiple entities that share similar characteristics or when a large investment is made with a single entity. At December 31, 2011, in accordance with the Company's Investment Policy, there were no single investment, other than bank deposits or investments benefiting from a government guarantee, that exceeded 30% of the liquid assets.

Liquidity risk

Liquidity risk represents the possibility that the Company would be unable to monetize its financial instruments so as to meet financial commitments at the appropriate time and under reasonable conditions.

The Company's maximum exposure to liquidity risk is equal to the amounts recognized as accounts payable and accrued liabilities and these amounts will be paid in the following year. The Company manages this risk by maintaining permanent and sufficient liquidity to meet current and future financial obligations, under both normal and exceptional circumstances. The funding strategies used to manage this risk include turning to capital markets to carry out issues of equity and debt securities.

Currency risk

The risk related to the exchange rate on financial instruments exists when monetary assets or liabilities are denominated in foreign currencies.

At December 31, 2011, if the Canadian dollar had weakened 10 percent against the US dollar with all other variables held constant, the net loss and comprehensive loss would have been $655 lower. Conversely, if the Canadian dollar had strengthened 10 percent against the US dollar with all other variables held constant, the net loss and comprehensive loss would have been $655 higher.

Fair value

The fair value of a financial instrument is equal to the amount at which this instrument could be traded knowingly and willingly between the parties involved. Fair value is based on the published prices (buy/ask prices) in an active market. In absence of such prices, fair value is based on the prevailing market prices for instruments with similar risk profiles and characteristics or on internal or external valuation models that use observable market data.

The fair value of cash, accounts receivable and accounts payable and accrued liabilities approximates their carrying values due to the short-term maturities of these items.

DISCLOSURE CONTROLS AND PROCEDURES
INTERNAL CONTROL OVER FINANCIAL REPORTING

The Chief Executive Officer and the Chief Financial Officer of the Company are responsible for establishing and maintaining the Company's disclosure controls and procedures (DC&P) and internal control over financial reporting ("ICFR"). As required by Securities Legislation, the Chief Executive Officer and the Chief Financial Officer have evaluated, or caused to be evaluated under their supervision, the Company's DC&P and ICFR as of December 31, 2011 and have concluded that DC&P and ICFR are effective. There have been no changes in the Company's DC&P and ICFR that occurred during the year ending December 31, 2011 that has materially affected, or is reasonably likely to materially affect, the Company's DC&P and ICFR.

FORWARD LOOKING STATEMENTS

The annual report and the MD&A contained herein, include certain statements that are considered "forward-looking information" within the meaning of applicable securities legislation. Furthermore, the words "will", "may", "could", "should", "outlook", "believe", "plan", "envisage", "anticipate", "expect" and "estimate", or the negatives of these terms or variations of them and the use of the conditional tense as well as similar expressions denote forward-looking information.

Forward-looking information is based upon a number of assumptions and is subject to a number of risks and uncertainties, many of which are beyond the Company's control that could cause actual results to differ materially from those that are disclosed in or implied by such forward-looking information. These risks and uncertainties are described under the section "Risk factors" above.

Although the forward-looking information contained in this MD&A is based upon what the Company believes are reasonable assumptions, investors are cautioned against placing undue reliance on this information since actual results may vary from the forward-looking information. Consequently, all of the forward-looking information contained in this MD&A are qualified by the foregoing cautionary statements, and there can be no guarantee that the results or developments anticipated by the Company will be realized or, even if substantially realized, that they will have the expected consequences or effects on the Company, its business, financial condition or results of operation.

Investors are advised to consult the Company's quarterly and annual reports, as well as the filing of the Company's annual information form for more details on the risks and uncertainties related to these prospective statements. The reader must not unduly rely upon the Company's prospective statements.

The Management, Discussion and Analysis has been prepared as at March 13, 2012. Additional information on the Company is available through regular filing of press releases, annual reports, quarterly financial statements and the Annual Information Form on the SEDAR website www.sedar.com.

Benoît Deschamps

Vice President of Finance and Chief Financial Officer
March 13, 2012

MANAGEMENT REPORT

RESPONSIBILITY OF THE FINANCIAL STATEMENTS

The financial statements of TSO_3 Inc., which have been approved by the Board of Directors, were prepared by Management in accordance with International Financial Reporting Standards. It contains certain amounts based on best judgment and estimates as their final determination is dependent upon subsequent events. It is the opinion of Management that the accounting policies utilized are appropriate in the circumstances and are adequate to reflect the financial position and the results of operations within reasonable limits of materiality. The financial information presented elsewhere in this annual report is consistent with the information contained in the financial statements.

In order to carry out its responsibilities with regard to the financial statements, Management maintains internal control systems that aim to provide a reasonable degree of certainty that transactions are duly authorized, that the assets are well protected, and that adequate records are kept.

The Board of Directors' Audit and Risk Management Committee, comprised solely of board members who are neither managers nor employees of the Company, ensures that Management assumes its responsibility in terms of financial statements.

The functions of the Audit and Risk Management Committee are to:

- Review the financial statements and recommend them for approval by the Board of Directors;
- Review the systems of internal control and security;
- Recommend the appointment of the external auditors and their fee arrangements to the Board of Directors;
- Review other accounting, financial and security matters as required.

This committee meets regularly with Management and the external auditors. The latter may, as they see fit, meet with the Audit and Risk Management Committee, with or without Management, to discuss matters affecting the audit and financial information.

The external auditors are appointed to report to the shareholders regarding the fairness of presentation of the Company's financial statements. The auditors fulfill this responsibility by carrying out an independent audit of these statements in accordance with Canadian Generally Accepted Auditing Standards.

On behalf of Management,

Richard M. Rumble
President and CEO

Benoît Deschamps
Vice President of Finance and

Chief Financial Officer

March 13, 2012

FINANCIAL STATEMENTS

DECEMBER 31, 2011 AND 2010

Deloitte.

Samson Bélair/Deloitte & Touche s.e.n.c.r.l.
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Bureau 400
Québec QC G1S 4Z4
Canada

Tél. : 418-624-3333
Téléc. : 418-624-0414
www.deloitte.ca

Independent auditor's report

To the shareholders of
TSO_3 inc.

We have audited the accompanying financial statements of TSO_3 inc., which comprise the statements of financial position as at December 31, 2011, December 31, 2010 and January 1, 2010, and the statements of loss and comprehensive loss, statements of changes in equity and statements of cash flows for the years ended December 31, 2011 and December 31, 2010, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of TSO_3 inc. as at December 31, 2011, December 31, 2010 and January 1, 2010, and its financial performance and its cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards.

March 13, 2012
Quebec, Canada

Samson Bélair
Deloitte & Touche s.e.n.c.r.l.[1]

[1] Chartered accountant auditor permit no. 16162

STATEMENTS OF LOSS AND COMPRENSIVE LOSS
Years ended December 31
(In Canadian $)

	Notes	2011 $	2010 $
Revenues			
Sales	21	**3,145,162**	939,285
License Revenue	21	**210,275**	201,504
Total Revenues		**3,355,437**	1,140,789
Expenses	5		
Operating		**3,480,520**	1,628,006
Sales and Marketing		**412,720**	987,995
Research and Development		**3,811,013**	3,014,198
Administrative		**3,473,215**	3,355,725
Financial Revenues	4	**(194,247)**	(131,970)
Financial Expenses	4	**27,637**	51,055
Total Expenses		**11,010,858**	8,905,009
Net Loss before Income Taxes		**7,655,421**	7,764,220
Income Taxes	19	**-**	-
Net Loss and Comprehensive Loss		**7,655,421**	7,764,220
Basic and Diluted Net Loss per Share	22	**0.13**	0.14

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

STATEMENTS OF CHANGES IN EQUITY
(In Canadian $)

	Notes	Share capital $	Reserve – Stock option plan $	Reserve – Warrants $	Deficit $	Total $
Balance at January 1, 2010		73,212,096	3,240,209	4,870,179	(66,590,187)	14,732,297
Issuance of Share Capital	13	16,000,000	-	-	-	16,000,000
Options exercised	13	176,883	(67,158)	-	-	109,725
Stock-based Compensation	14	-	153,279	-	-	153,279
Compensation to Underwriters		-	-	620,250	(620,250)	-
Share Issue expenses		(1,321,462)	-	-	-	(1,321,462)
Net Loss for the period		-	-	-	(7,764,220)	(7,764,220)
Balance at December 31, 2010		88,067,517	3,326,330	5,490,429	(74,974,657)	21,909,619
Balance at January 1, 2011		88,067,517	3,326,330	5,490,429	(74,974,657)	21,909,619
Options exercised	13	32,765	(14,237)	-	-	18,528
Warrants exercised	13	1,820,250	-	(620,250)	-	1,200,000
Transfer to Deficit	15	-	-	(4,870,179)	4,870,179	-
Stock-based Compensation	14	-	221,037	-	-	221,037
Net Loss for the period		-	-	-	(7,655,421)	(7,655,421)
Balance at December 31, 2011		89,920,532	3,533,130	-	(77,759,899)	15,693,763

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

STATEMENTS OF FINANCIAL POSITION
(In Canadian $)

	Notes	**As at December 31 2011 $**	As at December 31 2010 $	As at January 1 2010 $
Current Assets				
Cash and Cash Equivalents	6	**8,782,207**	6,115,297	3,729,157
Temporary Investments	6	**2,602,166**	13,004,710	6,942,688
Accounts Receivable	7	**1,893,470**	437,816	1,333,178
Inventories	8	**1,120,482**	1,460,304	1,483,810
Prepaid Expenses		**77,015**	58,512	111,528
		14,475,340	21,076,639	13,600,361
Non-current Assets				
Property, Plant and Equipment	9	**1,218,381**	896,887	1,123,109
Intangible Assets	10	**3,226,735**	3,400,179	3,549,189
		4,445,116	4 297 066	4 672 298
		18,920,456	25,373,705	18,272,659
Current Liabilities				
Accounts Payable and Accrued Liabilities		**1,231,201**	1,173,855	1,487,820
Warranty Provision	11	**88,972**	27,189	209
Deferred Revenues	12	**425,824**	572,071	633,483
		1,745,997	1,773,115	2,121,512
Non-current Liabilities				
Deferred Revenues	12	**1,480,696**	1,690,971	1,418,850
		3,226,693	3,464,086	3,540,362
Equity				
Share Capital	13	**89,920,532**	88,067,517	73,212,096
Reserve – Stock Option Plan	14	**3,533,130**	3,326,330	3,240,209
Reserve – Warrants	15	**-**	5,490,429	4,870,179
Deficit		**(77,759,899)**	(74,974,657)	(66,590,187)
		15,693,763	21,909,619	14,732,297
		18,920,456	25,373,705	18,272,659

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

Approved by the Board

Director

Director

STATEMENTS OF CASH FLOWS
Years ended December 31
(In Canadian $)

	Notes	**2011 $**	2010 $
Cash Flows from Operating Activities			
Net Loss and Comprehensive Loss before Income Taxes		**7,655,421**	7,764,220
Adjustments for:			
Depreciation of Property, Plant and Equipment		**377,096**	420,030
Amortization of Intangible Assets		**317,391**	328,293
Change in the value of Temporary Investments		**(40,070)**	12,782
Loss on disposal of Property, Plant and Equipment		**-**	196
Loss on write-down of Property, Plant and Equipment		**39,228**	97,299
Stock-based Compensation		**221,037**	153,279
		(6,740,739)	(6,752,341)
Changes in non-cash operating working capital items	17	**(1,903,761)**	895,608
Cash Flows used in Operating Activities		**(8,644,500)**	(5,856,733)
Cash Flows from Investing Activities			
Acquisition of Temporary Investments		**(2,578,955)**	(25,023,681)
Disposal of Temporary Investments		**13,021,569**	18,948,877
Acquisition of Property, Plant and Equipment		**(205,785)**	(291,331)
Acquisition of Intangible Assets		**(143,947)**	(179,283)
Disposal of Property, Plant and Equipment		**-**	28
Cash Flows generated (used) by Investing Activities		**10,092,882**	(6,545,390)
Cash Flows from Financing Activities			
Issuance of Share Capital	13	**-**	16,000,000
Payment for share issue expenses	13	**-**	(1,321,462)
Options exercised	13	**18,528**	109,725
Warrants exercised	13	**1,200,000**	-
Cash Flows generated by Financing Activities		**1,218,528**	14,788,263
Increase in Cash and Cash Equivalents		**2,666,910**	2,386,140
Cash and Cash Equivalents at the beginning		**6,115,297**	3,729,157
Cash and Cash Equivalents at the End		**8,782,207**	6,115,297

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

NOTES TO THE FINANCIAL STATEMENTS
Years ended December 31, 2011 and 2010

1. Description of Business

The Company exists under Business Corporations Act (Québec). Its activities encompass research, development, commercialization and licensing of sterilization processes and accessories for heat-sensitive medical devices. The head office of the Company is located at 2505, avenue Dalton, Québec (Québec), Canada.

2. Accounting Policies

Statement of Compliance

The Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standard Board (IASB) and applicable as at December 31, 2011.

Basis of preparation

The financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair value, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

The principal accounting policies are set out below:

Presentation Currency and Foreign Currency Translation

The audited financial statements are presented in Canadian dollars, which is the functional currency of the Company.

Foreign currency transactions are translated into Canadian dollars as follows: monetary assets and liabilities are translated at the exchange rates in effect at the financial position date, non-monetary assets and liabilities are translated at historical rates, revenues and expenses are translated at the exchange rates in effect at the time of the transaction and exchange gains or losses resulting from translation are carried to net income.

NOTES TO THE FINANCIAL STATEMENTS
Years ended December 31, 2011 and 2010

2. Accounting Policies (cont'd)

Revenue Recognition

Sales

The Company generates revenue from the sale of sterilization units as well as parts, consumable supplies and accessories related to these units. For such sales, 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.

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

Financial Revenue

Financial Revenue 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 Revenue income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

License Revenues

The license revenues and deferred revenues result from a commercial agreement with 3M™. This agreement includes license revenues that were paid upon signing, and additional payments based on achieving certain objectives. These deferred revenues are recognized on a straight line basis over the term of the agreement.

Stock-based Compensation

The Company uses the fair value method to measure compensation expense at the date of grant of stock options to employees. Fair value is determined using the Black-Scholes option pricing model and is amortized to net income over the vesting period with an offset to the Reserve Stock option plan. The amortization of the fair value is based on a graded vesting approach over the vesting period, and takes into consideration the number of options which are expected to vest. The forfeiture rate is revised every year and changes are accorded to net income. When options are exercised, the corresponding Reserve Stock option plan and the proceeds received by the Company are credited to share capital. The Stock option plan is an equity settled plan.

NOTES TO THE FINANCIAL STATEMENTS
Years ended December 31, 2011 and 2010

2. Accounting Policies (cont'd)

Income Taxes

The Company follows the liability method of accounting for income taxes. Under this method, deferred income taxes are recognized based on the expected future tax consequences of differences between the carrying amount of financial position items and their corresponding tax basis, using the enacted and substantively enacted income tax rates for the years in which the differences are expected to reverse. Deferred income tax assets are recognized in net income only if their realization is considered more likely than not.

Government Assistance and Research and Development Tax Credits

The Company incurs research and development expenses that are eligible for tax credits. The recorded tax credits are based on management's estimates of amounts expected to be recovered and are subject to audit by tax authorities. Government assistance, including the tax credits for scientific research and experimental development costs, is presented as a deduction of the related expense.

Inventories

The cost of inventories is essentially determined using the first-in, first-out method. The cost of work in progress and finished goods comprises the cost of raw materials and an applicable share of the cost of labour and manufacturing overhead based on normal production rates. Inventories are valued at the lower of cost and net realizable value.

When impairment is recognized, a new assessment of net realizable value is performed in each subsequent period. When the circumstances that justified writing down the inventories below cost no longer exist, or when there is a clear indication of an increase in net realizable value due to a change in the economic situation, the amount of the write-down is reversed and the new carrying amount is the lower of the cost or the revised net realizable value.

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 their estimated useful life taking into account any residual value, as follows:

NOTES TO THE FINANCIAL STATEMENTS
Years ended December 31, 2011 and 2010

2. Accounting policies (cont'd)

Office furniture and lift truck	10 years
Equipment and tools for production and R&D	7 years
Sterilizers used in R&D and in Technical Service	5 years
Stand	5 years
Hospital equipment	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 each financial year-end.

Intangible Assets

Intangible assets are recorded initially and subsequently at cost less amortization and impairment. Amortization is calculated using the straight-line method over their estimated useful lives taking into account any residual value, as follows:

Acquired in a business combination	
Technology	20 years
Acquired externally	
Patents	20 years
License	16 years
Software	3 years
Trademarks	10 and 15 years
Web site	3 years

The residual value, amortization method and the useful life of an asset are reviewed at each financial year-end.

Impairment of Property, Plant and Equipment and Intangible Assets

At the end of each reporting period, assets are reviewed for indication of any impairment. In such case, the asset's recoverable value is calculated to establish the amount of the impairment loss, if any. If it is not possible to determine the recoverable value for an individual asset, then the recoverable value of the asset is determined on the basis of its cash generating unit to which the asset belongs.

The recoverable value is the higher of (1) an asset's fair value less the cost to sell and (2) its value in use. Value in use is the present value of estimated future cash flows discounted using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which estimated future cash flows were not adjusted.

NOTES TO THE FINANCIAL STATEMENTS
Years ended December 31, 2011 and 2010

2. Accounting policies (cont'd)

If the asset's (or a cash generating unit's) estimated recoverable amount is lower than its carrying amount, the asset's (or the cash generating unit's) carrying amount is brought down to its recoverable amount. An impairment loss is immediately recognized in the Statement of Loss and Comprehensive Loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized immediately in the Statement of Loss and Comprehensive Loss.

Warranty Provision

The Company offers a standard 12-month warranty to its clients. The estimated cost of the warranty is based on the following: the Company's history with defective sterilization units and the parts and accessories for these units, the probability that these defects will arise and the costs to repair them.

Warrants

The Company uses the fair value method to measure the value of warrants at the grant date. Fair value is determined using the Black-Scholes option pricing model and is recorded in the deficit with an offset to Reserve Warrants. When warrants are exercised, the corresponding Reserve Warrants and the proceeds received by the Company are credited to share capital.

Financial Instruments

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially recognized at fair value and subsequent measurement depends on how they are classified, which is described below. Their classification depends on the purpose for which the financial instruments were acquired or issued, their characteristics, and the designation made by the Company. Settlement date accounting is used.

NOTES TO THE FINANCIAL STATEMENTS
Years ended December 31, 2011 and 2010

2. Accounting Policies (cont'd)

Classification of Financial Instruments

Category	Classification
Cash	Loans and Receivables
Cash Equivalents	Held for trading
Temporary Investments	Held for trading
Accounts Receivable	Loans and Receivables
Accounts Payable and Accrued Liabilities	Other Liabilities

Cash and Cash Equivalents

Cash and cash equivalents include cash, bonds with maturities of three months or less from the date of acquisition and money market funds. These investments are highly liquid and are held for the purpose of meeting short-term cash commitments. Cash equivalents are recorded at fair value. Increases and decreases in fair value are recognized through net income and presented under "Change in the Value of Investments held as Cash Equivalents" in the "Financial Revenues" of the Statement of Loss and Comprehensive Loss (see note 4).

Temporary Investments

Temporary investments are instruments held for trading because they will be used for short term cash needs. These investments are recorded at fair value. Increases and decreases in fair value are recognized as investment income and presented under "Change in the Value of Temporary Investments" in the "Financial Revenues" of the Statement of Loss and Comprehensive Loss (see note 4).

Loans and Receivables

Loans and receivables are accounted for at amortized cost using the effective interest method.

Other Liabilities

Other liabilities are recorded at amortized cost using the effective interest method.

Transaction Costs

Transaction costs related to held for trading financial assets are expensed as incurred. Transaction costs related to other liabilities and to loans and receivables are added to the carrying value of the asset or are netted against the carrying value of the liability and are then recognized over the expected life of the instrument using the effective interest method.

NOTES TO THE FINANCIAL STATEMENTS
Years ended December 31, 2011 and 2010

2. Accounting Policies (cont'd)

Fair Value

The fair value of a financial instrument is equal to the amount at which this instrument could be traded knowingly and willingly between the parties involved. Fair value is based on the published prices (buy/ask prices) in an active market. In absence of such prices, fair value is based on the prevailing market prices for instruments with similar risk profiles and characteristics or on internal or external valuation models that use observable market data.

The fair value of cash, accounts receivable and accounts payable and accrued liabilities approximates their carrying values due to the short-term maturities of these items.

Critical Accounting Judgments and Key Source 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 estimation:

1. *Recoverability of intangible 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 intangible assets. The main judgments made by management for the impairment test performed as of January 1st, 2010, and December 31, 2010 and 2011, 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;

   - A pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the intangible assets.

2. *Inventory valuation:*
   On a regular basis, the Company evaluates the value of its inventories. The obsolescence and the net realizable value are reviewed on an ongoing basis by the management of the supply chain function, based on its experience and knowledge of the current market conditions.

NOTES TO THE FINANCIAL STATEMENTS
Years ended December 31, 2011 and 2010

2. Accounting Policies (cont'd)

3. *Government assistance and research and development tax credits:*
   Government assistance is recorded in the financial statements when there is reasonable assurance that the Company has complied with, and will continue to comply with, all of the conditions necessary to obtain the assistance. In general, the Company recognizes 80 % of the amount that it expects to receive.

4. *Stock-Based Compensation:*
   The Stock-Based Compensation expenses pertaining to the options granted has been amortized using the graded vesting method. The options granted pursuant to this plan, generally vest over a three-year period and, maybe exercised within a maximum of 10 years of the grant date. The Company uses judgment in evaluating the expected volatility, the risk free-rate as well as the estimated number of options that will vest.

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

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

3. Future Accounting Changes

The IASB issued amendments to IFRS 7 - Financial Instruments: Disclosures, as part of its comprehensive review of off balance sheet activities, which is applicable to financial statement covering periods beginning on after July 1, 2011. Early adoption is permitted. The Company is currently assessing the impact of this amendment on its financial statements.

The amendments will allow users of financial statements to improve their understanding of transfer transactions of financial assets (for example, securitizations), including understanding the possible effects of any risks that may remain with the entity that transferred the assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken near the end of a reporting period.

The IASB published IFRS 9 "Financial Instruments," which replaces the provisions of IAS 39 "Financial Instruments: Recognition and Measurement," with regard to the classification and measurement of financial assets and liabilities. The provisions of IFRS 9 should initially apply to financial statements for periods beginning on or after January 1, 2013. On December 16, 2011, the IASB published an amendment to IFRS 9, in order to defer the mandatory effective date to annual periods beginning on or after January 1, 2015. This amendment also indicates that entities will not have to restate comparative data. However, additional disclosure on the effects at transition is required. Early adoption is permitted. The Company is currently evaluating the impact of this new standard on its financial statements.

NOTES TO THE FINANCIAL STATEMENTS
Years ended December 31, 2011 and 2010

3. Future Accounting Changes (cont'd)

IFRS 13 - Fair value measurement, issued in May 2011, establishes a single framework for measuring fair value where such required measure was under other IFRS. IFRS 13 will be effective for the annual period beginning on January 1, 2013, with earlier application permitted. IFRS 13 will apply for both financial and non-financial items measured at fair value. Under IFRS 13, the fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Company will adopt IFRS 13 for the annual period beginning January 1, 2013. A detailed review will be completed in the future in order to determine if this Standard will have significant impacts.

In May 2011, the IASB issued IFRS 10 - Consolidated Financial Statements, IFRS 11 – Joint Ventures, IFRS 12 – Disclosures of Involvement with Other Entities, and amended IAS 27 – Separate Financial Statements and IAS 28 – Investments in Associates and Joint Ventures, all applicable for annual period beginning on or after January 1, 2013. However, these standards do not need to be addressed in this note because they deal with situations that are not currently applicable to the Company.

In June 2011, the IASB also issued an amendment to IAS 1 - Presentation of Items of Other Comprehensive Income that will be effective for the annual period beginning on January 1, 2012. This amendment requires items of other comprehensive income items to be grouped into those that will and will not be reclassified to profit and loss in the future. Retrospective application is required. Earlier application of this standard is permitted. As the Company does not have Comprehensive Income, there will be no impact.

4. Financial Revenues and Expenses

	2011 **$**	2010 $
Financial Revenues		
Investment Income	**(211,066)**	(101,985)
Change in the Value of Investments held as Cash Equivalents	**56,889**	(42,767)
Change in the Value of Temporary Investments	**(40,070)**	12,782
	(194,247)	(131,970)
Financial Expenses		
Bank Charges	**5,165**	47,426
Foreign Exchange Loss	**26,540**	5,268
Miscellaneous	**(4,068)**	(1,639)
	27,637	51,055

NOTES TO THE FINANCIAL STATEMENTS
Years ended December 31, 2011 and 2010

5. Additional Information on Statement of Loss and Comprehensive Loss

Expenses (revenues) included in functions	2011 $	2010 $
Salary & Other Benefits	**5,448,333**	5,680,361
Operating		
Sales & Marketing		
Research & Development		
Administration		
Depreciation of Property, Plant and Equipment	**377,096**	420,030
Operating		
Sales & Marketing		
Research & Development		
Administration		
Amortization of Intangible Assets	**317,391**	328,293
Operating		
Sales & Marketing		
Research & Development		
Administration		
Government Assistance	**(3,800)**	(5,860)
Administration		
R&D Tax Credits	**(284,200)**	(376,096)
Research & Development		

6. Financial Instruments

Cash and Cash Equivalents

	2011 $	2010 $	January 1, 2010 $
Cash	**3,791,250**	1,470,708	1,528,375
Bank - Guaranteed Investment Certificate	**3,556,566**	-	-
Short-term Investments less than three months			
Money Market Funds	**1,434,391**	4,644,589	2,200,782
	8,782,207	6,115,297	3,729,157

As of December 31, 2011, Bank Guaranteed Investment Certificates were rated AAA and had a yield of 1.55% (none as of December 31, 2010 and as of January 1, 2010). Money market funds were rated AA- (AA- as of December 31, 2010 and as of January 1, 2010).

NOTES TO THE FINANCIAL STATEMENTS
Years ended December 31, 2011 and 2010

6. Financial Instruments (cont'd)

Temporary Investments

	2011	2010	January 1, 2010
	$	$	$
Bonds	**2,602,166**	13,004,710	6,942,688

As of December 31, 2011, bonds had ratings ranging from A+ to AA- (from AAA to A+ as of December 31, 2010 and a rate of A+ as at January 1, 2010) and had an average yield of 1.29% (1.14% as of December 31, 2010 and 0.64% as of January 1, 2010).

All investments of the Company are classified as level 1 under IFRS 7.

The Company is exposed to various risks, including the risks related to holding financial instruments. To manage the risk related to the use of financial instruments contained in the various investments that make up cash and cash equivalents and temporary investments, controls have been implemented, in particular the investment policy. TSO_3 primarily aims to optimize returns from a cash flow perspective while reducing the Company's main risk exposures, which are described below:

Market risk

Market risk is the risk that the value of a financial instrument will fluctuate as a result of changes in the parameters underlying its measurement, particularly interest rates and exchange rates.

Interest rate risk

Interest rate risk exists when interest rate fluctuations modify the cash flows of the Company's investments, including the price at which an investment could be sold.

At December 31, 2011 and December 31, 2010, if the base rate on that date had been 0.5% lower, and all other variables held constant, the after-tax loss and other comprehensive items for the year would have been $3,093 lower ($29,662 as of December 31, 2010), arising mainly as a result of an increase in the fair value of fixed rate financial assets classified as held for trading. If the base rates on that date had been 0.5% higher, all other variables being held constant, the after-tax loss and other comprehensive items for the year would have been $3,110 higher ($29,438 as of December 31, 2010), arising mainly as a result of a decrease in the fair value of fixed rate financial assets classified as held for trading. The net loss therefore has a similar sensitivity to interest rate increases and interest rate decreases because of investments with capped interest rates.

NOTES TO THE FINANCIAL STATEMENTS
Years ended December 31, 2011 and 2010

6. Financial instruments (cont'd)

Credit risk

The use of financial instruments can create a credit risk in which there is a risk of financial loss resulting from a counterparty's inability or refusal to fully meet its contractual obligations. The Company's maximum exposure to credit risk is equal to the amounts recognized as accounts receivable, cash and cash equivalents and temporary investments.

The Company has established an Investment Policy that addresses credit risk management and includes the authorization to perform investment transactions with the Canadian federal or provincial governments, crown corporations, municipalities or financial institutions, either in money market funds, guaranteed investment certificates or bonds with credit ratings of a minimum of A- or better according to the rating scale of Standard and Poor's or the equivalent for other credit rating agencies. This policy defines credit risk limits based on the characteristics of the counterparties. Therefore, the Company manages credit risk by complying with its established Investment policy.

As at December 31, 2011, December 31, 2010 and January 1, 2010, the Company's investments were rated by two recognized agencies, and they were in conformity with the Company's Investment policy.

Concentration risk

Concentration risk exists when investments are made with multiple entities that share similar characteristics or when a large investment is made with a single entity. As of December 31, 2011, December 31, 2010 and January 1, 2010 in accordance with the Company's investment policy, there was no single investment, other than bank deposits or investments benefiting from a government guarantee that exceeded 30% of the liquid assets.

Liquidity risk

Liquidity risk represents the possibility that the Company would be unable to monetize its financial instruments so as to meet financial commitments at the appropriate time and under reasonable conditions.

The Company's maximum exposure to liquidity risk is equal to the amounts recognized as accounts payable and accrued liabilities and these amounts will be paid in the following year. The Company manages this risk by maintaining permanent and sufficient liquidity to meet current and future financial obligations, under both normal and exceptional circumstances. The funding strategies used to manage this risk include turning to capital markets to carry out issues of equity and debt securities.

NOTES TO THE FINANCIAL STATEMENTS
Years ended December 31, 2011 and 2010

6. Financial instruments (cont'd)

Currency risk

The risk related to the exchange rate on financial instruments exists when monetary assets or liabilities are denominated in foreign currencies.

As of December 31, 2011 and, December 31, 2010 if the Canadian dollar had weakened 10 percent against the US dollar with all other variables held constant, the after-tax loss and other comprehensive items for the year would have been $655 lower ($25,007 as of December 31, 2010). Conversely, if the Canadian dollar had strengthened 10 percent against the US dollar with all other variables held constant, the after-tax loss and other comprehensive items for the year would have been $655 higher ($25,007 as of December 31, 2010).

7. Accounts receivable

	2011	2010	January 1, 2010
	$	$	$
Accounts Receivable	**1,206,551**	62,106	591,284
Tax credits receivable	**589,200**	305,000	607,234
Other	**97,719**	70,710	134,660
	1,893,470	437,816	1,333,178

As of December 31, 2011, an amount of $456,952 is receivable from 3M ($1,200 as of December 31, 2010 and none as of January 1, 2010).

No bad debt allowance as of December 31, 2011, December 31, 2010 and January 1, 2010.

8. Inventories

	2011	2010	January 1, 2010
	$	$	$
Raw Materials	**730,465**	978,963	928,187
Work in Progress	**198,657**	373,528	468,604
Finished Goods	**191,360**	107,813	87,019
	1,120,482	1,460,304	1,483,810

Operating expenses include a write-down of raw materials of $288,972 in 2011 ($84,523 for the same period in 2010).

NOTES TO THE FINANCIAL STATEMENTS
Years ended December 31, 2011 and 2010

9. Property, Plant and Equipment

	Office furniture $	Lift truck $	Equipment and tools for production and R&D $	Sterilizers used in R&D and in Technical Service $	Stand $	Hospital equipment $	Computer equipment $	Leasehold Improve-ments $	Total $
Cost									
Balance at January 1, 2011	185,970	14,115	1,053,298	431,445	22,735	180,810	491,176	195,598	2,575,147
Additions	219	-	68,687	532,033	-	97,560	37,129	2,190	737,818
Write-off	-	-	-	(168,969)[1)]	-	-	-	-	(168,969)
Balance at December 31, 2011	186,189	14,115	1,121,985	794,509	22,735	278,370	528,305	197,788	3,143,996
Accumulated depreciation									
Balance at January 1, 2011	105,329	11,998	689,672	189,294	18,593	38,366	458,677	166,331	1,678,260
Depreciation	16,164	1,412	97,877	129,631	1,904	76,530	30,108	23,470	377,096
Eliminated on write-off of assets	-	-	-	(129,741)	-	-	-	-	(129,741)
Balance at December 31, 2011	121,493	13,410	787,549	189,184	20,497	114,896	488,785	189,801	1,925,615
Net book value at December 31, 2011	64,696	705	334,436	605,325	2,238	163,474	39,520	7,987	1,218,381

1) In 2011, the Company wrote-off an amount of $168,969 for sterilizers of the former generation which were no longer used in its R&D activities

NOTES TO THE FINANCIAL STATEMENTS
Years ended December 31, 2011 and 2010

9. Property, Plant and Equipment (cont'd)

	Office furniture $	Lift truck $	Equipment and tools for production and R&D $	Sterilizers used in R&D $	Stand $	Hospital equipment $	Computer equipment $	Leasehold Improve-ments $	Total $
Cost									
Balance at January 1, 2010	185,970	14,115	955,850	609,211	22,735	24,694	484,966	232,316	2,529,857
Additions	-	-	97,448	-	-	156,116	12,387	25,380	291,331
Disposals	-	-	-	-	-	-	(6,177)	-	(6,177)
Write-down	-	-	-	(177,766)[1)]	-	-	-	(62,098)	(239,864)
Balance at December 31, 2010	185,970	14,115	1,053,298	431,445	22,735	180,810	491,176	195,598	2,575,147
Accumulated depreciation									
Balance at January 1, 2010	87,346	10,586	518,256	147,919	15,680	4,116	421,226	201,619	1,406,748
Depreciation	17,983	1,412	171,416	121,842	2,913	34,250	43,404	26,810	420,030
Eliminated on disposals of assets	-	-	-	-	-	-	(5,953)	-	(5,953)
Eliminated on write-down of assets	-	-	-	(80,467)	-	-	-	(62,098)	(142,565)
Balance at December 31, 2010	105,329	11,998	689,672	189,294	18,593	38,366	458,677	166,331	1,678,260
Net book value at December 31, 2010	80,641	2,117	363,626	242,151	4,142	142,444	32,499	29,267	896,887
Net book value at January 1, 2010	98,624	3,529	437,594	461,292	7,055	20,578	63,740	30,697	1,123,109

[1)] In 2010, the Company wrote-off an amount of $177,766 for sterilizers of the former generation which were no longer used in its R&D activities

NOTES TO THE FINANCIAL STATEMENTS
Years ended December 31, 2011 and 2010

10. Intangible Assets

	Technology $	Patents $	License $	Software $	Trademarks $	Web site $	Total $
Cost							
Balance at January 1, 2011	2,978,874	743,870	991,063	520,375	76,642	54,691	5,365,515
Additions	-	45,304	-	73,750	24,893	-	143,947
Balance at December 31, 2011	2,978,874	789,174	991,063	594,125	101,535	54,691	5,509,462
Accumulated amortization							
Balance at January 1, 2011	893,663	113,858	433,590	461,552	13,289	49,384	1,965,336
Amortization	148,944	38,327	61,941	56,366	8,275	3,538	317,391
Balance at December 31, 2011	1,042,607	152,185	495,531	517,918	21,564	52,922	2,282,727
Net book value at December 31, 2011	1,936,267	636,989	495,532	76,207	79,971	1,769	3,226,735

	Technology $	Patents $	License $	Software $	Trademarks $	Web site $	Total $
Cost							
Balance at January 1, 2010	2,978,874	617,789	991,063	503,187	40,628	54,691	5,186,232
Additions	-	126,081	-	17,188	36,014	-	179,283
Balance at December 31, 2010	2,978,874	743,870	991,063	520,375	76,642	54,691	5,365,515
Accumulated amortization							
Balance at January 1, 2010	744,719	78,545	371,649	388,264	8,020	45,846	1,637,043
Amortization	148,944	35,313	61,941	73,288	5,269	3,538	328,293
Balance at December 31, 2010	893,663	113,858	433,590	461,552	13,289	49,384	1,965,336
Net book value at December 31, 2010	2,085,211	630,012	557,473	58,823	63,353	5,307	3,400,179
Net book value at January 1, 2010	2,234,155	539,244	619,414	114,923	32,608	8,845	3,549,189

NOTES TO THE FINANCIAL STATEMENTS
Years ended December 31, 2011 and 2010

11. Warranty Provision

	2011 $	2010 $
Balance at beginning	**27,189**	209
Additional provisions recognized	**105,154**	58,643
Amounts used during the year	**(16,127)**	(7,218)
Unused amounts reversed during the year	**(27,244)**	(24,445)
Balance at the end	**88,972**	27,189

12. License Revenues and Deferred Revenues related to License

As of December 31, 2011, an amount of $1,480,696 ($1,690,971 as of December 31, 2010 and $1,418,850 as of January 1, 2010) is presented in the non-current deferred revenues and an amount of $210,275 ($210,275 as of December 31, 2010 and $157,650 as of January 1, 2010) is included in current deferred revenues.

13. Share-Capital

Authorized

An unlimited number of shares

Common, voting, participating, without par value

Class A, voting, participating, with a par value of $1.00 each

Class B, voting, participating, without par value

		2011		2010
Issued and paid	**Number of Common Shares**	**$**	Number of Common Shares	$
Balance at beginning	**58,022,451**	**88,067,517**	47,867,568	73,212,096
New issue	**-**	**-**	10,000,000	14,678,538
Options exercised	**13,231**	**32,765**	154,883	176,883
Warrants exercised	**750,000**	**1,820,250**	-	-
Balance at end	**58,785,682**	**89,920,532**	58,022,451	88,067,517

NOTES TO THE FINANCIAL STATEMENTS
Years ended December 31, 2011 and 2010

13. Share-Capital (cont'd)

In 2011, holders exercised certain options; they subscribed for 13,231 shares for a cash consideration of \$18,528. In 2010, options holders subscribed for 154,883 shares for a cash consideration of \$109,725.

In 2011, holders exercised certain warrants; they subscribed to 750,000 shares for a cash consideration of \$1,200,000. No warrant was exercised in 2010.

On March 2, 2010, the Company closed a financing of \$16,000,000 from the sale of 10,000,000 shares.

Shareholder Rights Plan Agreement

The Board of Directors of TSO_3 has adopted a shareholder rights plan agreement (the "Plan") designed to foster fair treatment of all shareholders in connection with any take-over bid for TSO_3. While the Plan came into effect on October 25, 2011, it must be ratified by the shareholders within six months of its adoption. TSO_3 will seek shareholder ratification of the Plan at the next annual and special shareholder meeting scheduled to be held on April 25, 2012. If the Plan is not ratified as such by the shareholders, it will be void and of no further force and effect.

The Plan has been designed to give the Board and shareholders more time to fully consider any take-over bid and to provide the Board with more time to pursue, if appropriate, other alternatives to maximize shareholder value.

Under the terms of the Plan, one right (a "Right") has been issued and attached to each voting share (each a "Share") of TSO_3 issued and outstanding as of the opening of business on October 25, 2011; one Right will also be issued and attached to each Share subsequently issued. These Rights would become exercisable only when a person, including any party related to it, acquires or announces its intention to acquire 20% or more of the outstanding Shares of TSO_3, without complying with the "Permitted Bid" provisions of the Plan or, in certain cases, without the approval of the Board. Until such time, the Rights are not separable from the Shares, are not exercisable and no separate rights certificates are issued.

To qualify as a "Permitted Bid" under the Plan, a bid must, among other things: (1) be made to all holders of Shares of TSO_3; (2) provide that the Shares tendered will be taken up or paid for on a closing date which is not less than 60 days from the date of the bid and more than 50% of the Shares, other than those owned by the bidder and any related persons, were tendered and not withdrawn on that date; (3) Shares tendered may be withdrawn by their holder at any time prior to closing; (4) provide that on the date where the Shares could be taken up and paid for, if more than 50% of the Shares held by holders independent from the bidder and any related persons were tendered, the bidder must disclose such fact in an announcement and the bid must remain open for another 10 days.

NOTES TO THE FINANCIAL STATEMENTS
Years ended December 31, 2011 and 2010

13. Share-Capital (cont'd)

Following the occurrence of an event which triggers the right to exercise the Rights and subject to the terms and conditions of the Plan, each Right would entitle the holders thereof, other than the acquiring person or any related persons, to exercise their Rights and purchase Shares of TSO_3 at a substantial discount to the market price at that time.

The Plan is scheduled to expire at the close of business on the date immediately following the date of TSO_3's annual meeting of shareholders to be held in 2015, unless terminated earlier in accordance with the terms of the Plan.

Employee Stock Purchasing Plan

On May 2, 2007, the Company set up an employee stock purchasing plan for employees and executives. Eligible participants may contribute, in the form of payroll deductions, up to 5% of their basic salary. The Company contributes an amount equal to 50% of the participant's total monthly contribution. Every month, the participants' and Company's contributions are remitted to a brokerage firm that 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.

14. Reserve – Stock Option Plan

The Company's board of directors adopted a stock option plan solely for directors, executives, employees and service providers of the Company, which was approved by its shareholders. The total number of common shares from the Company's share capital that can be issued under this plan as of December 31, 2011 is 4,381,293 (4,394,524 as of December 31, 2010 and 4,549,407 as of January 1, 2010). The total number of common shares reserved for the exercise of stock options in favour of a holder cannot, at any time, represent more than 5% of the Company's common shares issued and outstanding at the time options are granted to such holder. The options granted pursuant to this plan, generally vest over a three-year period and, may be exercised within a maximum of 10 years of the grant date. During the year ended December 31, 2011, the Company awarded 709,400 stock options (78,000 for the year ended December 31, 2010) to its directors and employees at a weighted average exercise price of $1.74 ($1.47 for the year ended December 31, 2010). The weighted average fair value of these stock options was $0.74 per option ($1.17 in 2010).

The Stock-Based Compensation expense pertaining to the options granted has been amortized using the graded vesting method and represents a Stock-Based Compensation expense of $221,037 as of December 31, 2011 ($153,279 as of December 31, 2010) presented as part of the "Administrative expenses".

NOTES TO THE FINANCIAL STATEMENTS
Years ended December 31, 2011 and 2010

14. Reserve – Stock Option Plan (cont'd)

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

	2011	2010
Acquisition Date Share Price	**$1.70**	$1.47
Exercise Price	**$1.74**	$1.47
Risk Free Interest Rate	**2.95%**	3.1%
Estimated Share Price Volatility	**34%**	72%
Expected Life	**8 years**	10 years
Expected Dividend Yield	**0%**	0%

The Stock-Based Compensation expenses takes into account an estimate of the number of options which will vest and be exercised. In addition, option pricing models such as the Black & Scholes model require highly subjective valuations, including the assumed stock price volatility of the underlying shares. Volatility was estimated for the 2011 and 2010 grants by calculating the historical volatility of the company's share price prior to the date of grant and adjusted for the expected life of the options. Any change in the assumptions can materially affect the fair value estimates.

	Number	**2011 Weighted Average Exercise Price $**	Number	2010 Weighted Average Exercise Price $
Outstanding at beginning	**3,338,415**	**1.05**	4,179,544	1.20
Granted	**709,400**	**1.74**	78,000	1.47
Exercised	**(13,231)**	**1.40**	(154,883)	0.71
Expired	**(125,265)**	**1.85**	(584,491)	1.85
Forfeited	**(160,674)**	**2.59**	(179,755)	2.09
Outstanding at end	**3,748,645**	**1.08**	3,338,415	1.05
Exercisable at end	**2,950,578**	**0.93**	2,548,815	1.20

NOTES TO THE FINANCIAL STATEMENTS
Years ended December 31, 2011 and 2010

14. Reserve – Stock Option Plan (cont'd)

The following table summarizes certain information regarding the stock options of the Company as of December 31, 2011:

	Outstanding options		Exercisable options	
Exercise price	Number	Average remaining contractual life (years)	Number	Average remaining contractual life (years)
$0.24 to $1.97	3,465,629	6.19	2,667,562	5.26
$2.20 to $2.90	204,011	5.03	204,011	5.03
$3.10 to $3.45	79,005	3.50	79,005	3.50
	3,748,645	6.09	2,950,578	5.21

15. Reserve - Warrants

Concurrently with the issue of 10,000,000 shares on March 2, 2010, 750,000 warrants were granted. Each warrant could be used to purchase one common share of the Company at a price of $1.60 until September 2, 2011.

	Number	2011 Exercise Price $	Number	2010 Exercise Price $
Outstanding at beginning	**750,000**	**1.60**	-	-
Granted	**-**	**-**	750,000	1.60
Exercised	**(750,000)**	**1.60**	-	-
Outstanding at end	**-**	**1.60**	750,000	1.60
Exercisable at end	**-**	**1.60**	750,000	1.60

At any time when warrants expire without being exercised or are being cancelled, the Company is authorized to transfer to the Accumulated Deficit the amount corresponding to such warrants that would be in the balance of the Reserve for Warrants. Such authorization has been used in 2011 for a total amount of $4,870,179 (none in 2010).

16. Capital Management

The Company needs capital primarily to finance its research and development activity, its operating, administrative and marketing expenses, its working capital and its capital expenditures. In the past, the Company has financed its activities through various rounds of public and private financing as well as through government grants. Depending on its capacities and prevailing market conditions, the Company could finance all or a portion of its non-current assets through long-term debt.

NOTES TO THE FINANCIAL STATEMENTS
Years ended December 31, 2011 and 2010

16. Capital Management (cont'd)

The Company had a line of credit to a maximum of $350,000 which was undrawn as of December 31, 2010 and as of January 1, 2010. The line of credit was cancelled as of December 31, 2011, as requested by the Company.

17. Additional information relating to Cash Flows

	2011 **$**	2010 $
Change in non-cash operating working capital items		
Decrease (increase) in currents assets		
Accounts receivable	**(1,455,654)**	895,362
Inventories	**339,822**	23,506
Prepaid expenses	**(18,503)**	53,016
Increase (decrease) in liabilities		
Accounts payable and accrued liabilities	**57,346**	(313,965)
Warranty provision	**61,783**	26,980
Deferred revenues	**(356,522)**	210,709
	(1,371,728)	895,608
Non-cash item transferred to R&D	**(532,033)**	-
	(1,903,761)	895,608
Interest		
Received	**174,302**	101,985
Research and development tax credits		
Received	**-**	371,096

18. Related party transactions

During 2011, the Company has made severance payments to some of its employees for a total of $147,755 ($334,954 in 2010).

NOTES TO THE FINANCIAL STATEMENTS
Years ended December 31, 2011 and 2010

18. Related party transactions (cont'd)

Compensation of key management personnel

Persons in key management positions have authority and responsibility for planning, directing and controlling the activities of the company. Key management comprises the Chief Executive Officer, the Chief Financial Officer and other vice presidents. The remuneration of key management personnel during the year was as follows:

	2011 **$**	2010 $
Short-term salaries and other benefits	**1,066,655**	1,153,270
Post-employment benefits	**15,317**	15,615
Share-based payments	**8,532**	8,621
Option-based awards[1]	**424,448**	10,640
Termination benefits	**-**	260,928
	1,514,952	1,449,074

[1] Share-based value including the amount of the expenses for stock options, accounted for during the year.

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

19. Income Taxes

For tax purposes, each year the losses from operations can be applied against future taxable income.

As of December 31, 2011, the accumulated tax losses that can be carried forward are as follows:

	Loss carry-forwards	
Expiry Date	Federal $	Provincial $
2031	6,875,000	6,875,000
2030	6,612,000	6,346,000
2029	7,418,000	7,399,000
2028	8,053,000	8,040,000
2027	6,224,000	6,822,000
2026	5,481,000	5,820,000
2015	5,009,000	4,961,000
2014	4,601,000	4,591,000
	50,273,000	50,854,000

NOTES TO THE FINANCIAL STATEMENTS

Years ended December 31, 2011 and 2010

19. Income taxes (cont'd)

As at December 31, 2011, based on an effective rate of 15% for federal taxes and 11.9% for provincial taxes, the undiscounted value of tax losses carried forward is $13,592,000.

As at December 31, 2011, in addition to these tax losses carried forward, the Company has unclaimed research and development expenses ($11,120,000 at the federal level and $15,608,000 at the provincial level) and $951,628 in financing costs that can be carried forward to reduce future taxable income. The unrealized tax benefit related to these items is estimated at $3,781,000.

With respect to property, plant and equipment, the Company has a deferred income tax asset related to the tax cost that is higher than the net book value of these capital assets. The unrecorded eventual tax benefit related to that difference is evaluated at $855,000.

In addition, as of December 31, 2011, the Company has $2,902,000 in additional tax credits, representing the outstanding and unrecorded portion of the federal research and development tax credit receivable.

The Company also has a capital loss balance creating deferred income tax assets of $15,000.

Furthermore, the cost of intangible assets for tax purposes was $564,000 (net book value of $3,149,000) resulting from the Company taking advantage of provisions in the federal and provincial income tax laws with respect to rollovers. Deferred income taxes estimated at $488,000 and resulting from the difference between the carrying value and the tax value of intangible assets have not been recorded.

Deferred income tax assets related to tax losses and unclaimed expenses will be recorded in the financial statements, resulting in an increase in earnings and shareholders' equity, once the Company concludes that these losses likely will be realized. At the same time, the deferred income tax liability related to the cost of the intangible assets for tax purposes will be recorded, and the amount of intangible assets will be increased accordingly. If and when the Company concludes that these items will likely be materialized, it would record an aggregate net amount of $20,657,000 in tax assets.

20. Research and development tax credits

For tax credit purposes, research and development expenditures incurred during the year 2011 totaled $773,000 ($1,389,000 in 2010); of these research and development expenditures, an amount of $0 as of December 31, 2011 ($255,050 in 2010) is related to property, plant and equipment.

Some of these expenses qualify for refundable scientific research tax credits amounting to $290,000 as of December 31, 2011 ($305,000 in 2010).

Years ended December 31, 2011 and 2010

20. Research and development tax credits (cont'd)

The tax credits claimed for the year ending on December 31, 2010 are presently reviewed by the tax authorities. Consequently, the amount of tax credits that will be awarded could differ from the ones already recorded

The tax credits claimed for the year ending on December 31, 2011 have not been reviewed by the tax authorities. Consequently, the amount of tax credits that will be awarded could differ from the ones already recorded

21. Segmented Information

The Company is structured as a single operating segment. Almost all fixed assets of the Company are located in Canada.

Operating revenues are allocated between geographic areas based on the location of the client and are as follows for years ended December 31:

	2011		2010	
	$	**%**	$	%
Canada	**2,667,751**	**85**	237,554	25
Worldwide	**477,411**	**15**	701,731	75
	3,145,162	**100**	939,285	100

The Company earns an important part of its revenues from a customer under a long-term commercial agreement. For the year ended December 31, 2011, these revenues represented 55% of the Company's sales (43% for the same period in 2010). Shipments to that client were made in Canada and elsewhere in the world outside the United States.

For the year ended December 31, 2011, license revenues, in the amount of $210,275 ($201,504 for the same period in 2010), also resulted from this commercial agreement (see note 12).

NOTES TO THE FINANCIAL STATEMENTS
Years ended December 31, 2011 and 2010

22. Loss per Share

The following table reconciles the basic and the diluted loss per share for years ended December 31:

	2011 $	2010 $
Net Loss		
Basic and Diluted	**7,655,421**	7,764,220
Number of Shares		
Weighted Average Number of Outstanding Shares[1)]	**58,289,996**	56,281,313
Loss per Share		
Basic	**0.13**	0.14
Diluted [2)]	**0.13**	0.14

1) The calculation of the weighted average number of outstanding shares is determined as a function of the number of outstanding common shares based on the fraction of the period during which the shares were outstanding.
2) The weighted average number of outstanding shares is the same number used in the calculation of the diluted net loss per share since the inclusion of common shares resulting from the eventual exercise of options and warrants is antidilutive, in the calculation of the diluted per share amount of a loss.

23. Contractual Commitments

As of December 31, 2011, the contractual commitments in the fiscal years to come are as follows:

	2012 $	2013 $	2014 $	2015 $
Operating leases and service contracts	54,773	6,755	843	843

24. Approval of Financial Statements

The financial statements were approved by the Board of Directors on March 13, 2012.

25. Transition to IFRS

These are the Company's first financial statements under IFRS. The Company used to present its financial statements under Canadian GAAP prior to 2011. Therefore the Company used the provision of IFRS 1 "First-Time Adoption of IFRS" (IFRS 1) in preparing these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
Years ended December 31, 2011 and 2010

25. Transition to IFRS (cont'd)

IFRS 1 requires that comparative financial information be provided. As a result, the first date at which the Company has applied IFRS was January 1, 2010 (the "Transition Date"). IFRS 1 requires first-time adopters to apply retrospectively all effective IFRS Standards but it also provides for certain optional exemptions and certain mandatory exceptions for first time IFRS adopters to the retrospective application. The Company uses IFRS effective as of the reporting date, December 31, 2011.

Initial Elections upon Adoption

Set forth below are the IFRS 1 applicable exemptions and mandatory exceptions applied in the conversion from previous Canadian GAAP to IFRS:

<u>IFRS Exemption Options</u>

a) **Share-based Payments** – IFRS 2 - Share-based payments, encourages the application of its provision to equity instruments granted on or before November 7, 2002, and permits the application of IFRS 2 to equity instruments granted after November 7, 2002 that had vested by the Transition Date. The Company elected to avail itself of the exemption provided under IFRS 1 and therefore applied IFRS 2 only to equity instruments granted after November 7, 2002 that had not vested by January 1, 2010.
b) **Deemed Cost –** IFRS 1 includes an optional exemption that relieves first-time adopters from the requirement to recreate cost information for property, plant and equipment. Given the type of capital assets held, the Company accounted for them as at the Transition date at their depreciated cost in accordance with IAS 16 – "Property, Plant and Equipment" rather than at their fair value on this date. The adjustments are explained in the reconciliations.
c) **Designation of previously recognized financial instruments** – IFRS 1 permits first-time adopters to re-designate financial instruments on the transition date. The Company reviewed the classification of its temporary investments and decided to maintain its prior designation under IFRS.
d) **Business Combination** – IFRS 1 permits first-time adopters not to apply IFRS 3 retrospectively to past business combinations (business combinations that occurred before the date of transition to IFRS). For this reason, the Company decided not to retrospectively restate business combinations that occurred prior to January 1, 2010.

<u>IFRS Mandatory Exceptions</u>

a) **Estimates** – Hindsight is not used to create or revise estimates. The estimates previously made by the Company under Canadian GAAP were not revised for application of IFRS except where necessary to reflect any difference in accounting policies, if any.

NOTES TO THE FINANCIAL STATEMENTS
Years ended December 31, 2011 and 2010

25. Transition to IFRS (cont'd)

Reconciliation of Equity as of January 1, 2010

	Canadian GAAP Balance $	IFRS Reclassifications $	IFRS Adjustments $	IFRS Balance $
Share Capital	73,212,096	-	-	73,212,096
Reserve – Stock Option Plan	-	3,240,209[1)]	-	3,240,209
Reserve – Warrants	-	4,870,179[1)]	-	4,870,179
Contributed Surplus	8,110,388	(8,110,388)[1)]	-	-
Deficit	(66,456,957)	-	(133,230)[2)]	(66,590,187)
	14,865,527	-	(133,230)	14,732,297

1) The contributed surplus has been reclassified according to the nature of the different elements of which it consists.
2) This adjustment results from a change in accounting policies for property, plant and equipment. The Company has decided to change its current diminishing balance method use for tangible assets for the straight-line method. A retrospective application has been made and the opening balance of Deficit as of January 1, 2010 has been adjusted. As a result, the balance of property, plant and equipment has been reduced of $133,230.

Reconciliation of Equity as of December 31, 2010

	Canadian GAAP Balance $	IFRS Reclassifications $	IFRS Adjustments $	IFRS Balance $
Share Capital	89,388,979	-	-	89,388,979
Reserve – Stock Option Plan	-	3,326,330 [1)]	-	3,326,330
Reserve – Warrants	-	5,490,429 [1)]	-	5,490,429
Contributed Surplus	8,816,759	(8,816,759)[1)]	-	-
Deficit	(76,072,390)	-	(223,729) [2)]	(76,296,119)
	22,133,348	-	(223,729) [2)]	21,909,619

1) The contributed surplus has been reclassified according to the nature of the different elements of which it consists.
2) This adjustment results from a change in accounting policies for property, plant and equipment. The Company has decided to change its current diminishing balance method use for tangible assets for the straight-line method. A retrospective application has been made and the opening balance of Deficit as of January 1, 2010 has been adjusted. As a result, the balance of property, plant and equipment has been reduced of $223,729, including $133,230 as of January 1, 2010.

NOTES TO THE FINANCIAL STATEMENTS
Years ended December 31, 2011 and 2010

25. Transition to IFRS (cont'd)

Reconciliation of Statements of Loss and Comprehensive Loss as of December 31, 2010.

	Canadian GAAP Balance $	IFRS Reclassifications $	IFRS Adjustments $	IFRS Balance $
Revenues				
Sales	939,285	-	-	939,285
License Revenue	-	201,504 1)	-	201,504
Total Revenues	939,285	201,504 1)	-	1,140,789
Expenses				
Operating	1,631,383	-	(3,377) 2)	1,628,006
Sales and Marketing	989,256	-	(1,261) 2)	987,995
Research and Development	3,299,446	(376,096) 1)	90,848 2)	3,014,198
Administrative	3,245,913	105,523 1)	4,289 2)	3,355,725
Financial	10,417	(10,417) 1)	-	-
Financial Revenues	-	(131,970) 1)	-	(131,970)
Financial Expenses	-	51,055 1)	-	51,055
Total Expenses	9,176,415	(361,905) 1)	90,499 2)	8,905,009
Other Income	563,409	(563,409) 1)	-	-
Net Loss and Comprehensive loss	7,673,721	-	90,499 2)	7,764,220
Basic and Diluted Net Loss per Share	0.14	-	-	0.14

1) The Company has adopted a presentation by function for the Statement of Loss and Comprehensive Loss. Consequently, items included in "Other Income" and in "Financial" under Canadian GAAP have been reclassified in different functions, according to their nature.

2) This adjustment results from a change in accounting policies for property, plant and equipment. The Company has decided to change its current diminishing balance method use for tangible assets for the straight-line method. A retrospective application has been made and the opening balance of Deficit has of January 1, 2010 has been adjusted. As a result, the depreciation of property, plant and equipment has been increased of $90,499.

Reconciliation of Cash Flows

The Company's first time adoption of IFRS did not have an impact on presentation and on the total operating, investing or financing cash flows.

DIRECTORS

Germain Carrière 1) 2) 3) 4)
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Corporate Director

Jean-François Bureau 1) 2) 4)
Vice President and Chief Risk Officer
PSP Investments

André de Villers 2) 4)
President
CEMA

Pierre Désy 1) 2) 4)
Corporate Director

James Husman 3) 4)
Corporate Director

Jacques Marcotte 3) 4)
President
HWY Finance Inc.

W. Barry McDonald 1) 3) 4)
Consultant and Corporate Director

Richard M. Rumble
President and Chief Executive Officer, TSO_3

Simon Robitaille
Vice president, Operations / R&D,
Chief Scientific Officer and Co-Founder, TSO_3

1) Member of the Audit Committee
2) Member of the Human Resources
3) Member of the Corporate Governance Committee
4) Member of the Advisory Committee

INVESTOR'S INFORMATION

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Corporate Solicitors
Lavery, de Billy, LLP

Intellectual Property Solicitors
Borden Ladner Gervais LLP, Ottawa

Bank
National Bank of Canada

Annual Shareholder Meeting
Wednesday, April 25, 2012 at 10h30 am
Palais Montcalm
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TSO_3 STERIZONE® Sterilizer U.S. Pat. No. 7,128,872 / 7,582,257 / 7,588,720 / 7,608,217
TSO_3 STERIZONE® Chemical Indicator U.S. Pat. No. 6,589,479
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Other patents pending