2016 Quarterly Report
January – February - March

Creating the Improved Standard in Healthcare Sterile Reprocessing™

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Message from the Chief Executive Officer

Dear Valued Shareholders:

During the first quarter of 2016, TSO_3 achieved several milestones in development of the Company. For the first time, we manufactured and shipped 25 sterilizers and a number of related accessories, which drove revenues in the quarter to US$3.1 million. Additionally, we achieved profitability with net income of $0.6 million or $0.01 per share. This early profitability was due to a one time foreign exchange gain, without such the Company would have incurred a loss of $0.9 million or $0.01 per share. During the quarter we changed our functional and reporting currency to US dollars due to the increasing importance of our US revenues. We are pleased with these results, and look forward to the additional investments we have planned for 2016.

Another important milestone during the quarter was preparing for our launch in Europe later this year, which included Getinge exhibiting our STERIZONE® VP4 Sterilizer at its Infection Control meeting in France last April.

Our first quarter results took collaboration between numerous TSO_3 teams and our critical suppliers. Based on manufacturing capacity testing completed and disclosed in the quarter, we believe the current Quebec facility could achieve our previously announced target of 200 sterilizers annually. To this end, we are currently "re-tooling" areas of the facility and retraining operators to keep our manufacturing capacity ramp on track in the third quarter and beyond. This said, the rate of deliveries to Getinge in the second quarter of 2016 may be reduced in order to focus energies and resources on upgrading our assembly processes and systems in pursuit of our one sterilizer per day objective, and continue our investment in training and supporting Getinge in the deployment of our sterilizers.

Given that we remain in the early stages of our exclusive global distribution agreement with our channel partner Getinge, we will continue to carefully disclose the activities in the field. To this end, TSO_3 management have met with the new leadership at Getinge that were appointed after a significant corporate restructuring initiative. I am very pleased to say that the commitment to our technology and product line has remained very strong throughout Getinge and with the new structure firmly in place we are once again working with the teams on a daily basis.

With the increased and documented interest in our product, TSO_3 is continuing to increase the support and resources allocated to our instrument compatibility testing. Our compatibility testing services (CTS) program has published data on sterile efficacy for a wide range of instruments on our website as well as updates and expands this listing regularly. The CTS program evaluates and adds instruments to the list by using historical information for equivalent devices or using data generated from the device being qualified. Thus, with increased interest comes increased communication to numerous OEM entities and the end-users through Getinge.

TSO_3 remains committed to bringing the highest level of care to the endoscopy suite with the pursuit of obtaining a cleared claim for complex, multi-channeled devices such as colonoscopes and gastroscopes. Our submission is in progress and we remain confident for timely and positive news.

This first quarter of 2016 was a transformational quarter for our company. It was a great team effort and the team is still learning our roles as we bring our combined resources together to win. I'd like to thank each member of our team for their excellent work and dedication, the board of directors and our shareholders for your continued support and trust.

R.M. (Ric) Rumble

Overview

Who We Are and What We Do

TSO_3 Inc. was founded in June 1998 in Québec City and employs 62 people as at March 31, 2016. The Company's activities encompass the sale, production, maintenance, research, development and licensing of sterilization processes, related consumable supplies and accessories for heat-sensitive medical devices. The Company's products, which represent a significant improvement in features and efficacy over incumbent low temperature sterilization technologies, are used in the sterilization departments of hospital and other medical facilities. It also provides services related to the maintenance of sterilization equipment and compatibility testing of medical devices with such processes.

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

Our Technology

Our STERIZONE® 125L+ Sterilizer was licensed by Health Canada in 2009 and CE marked in 2010 and the Company subsequently sold a limited number of units in Canada as initial beta units. These initial units have been in continuous operation for more than four years. The STERIZONE® VP4 Sterilizer and its accessories, an evolution of the STERIZONE® 125L+ Sterilizer, were cleared for commercialization in the United States in December 2014 and in Canada, in addition to the STERIZONE®125L+ Sterilizer, in 2015.

In December 2014, TSO_3 achieved a major milestone when its next-generation sterilizer, STERIZONE® VP4 Sterilizer, received 510(k) clearance from the FDA. The STERIZONE® VP4 Sterilizer developed by TSO_3 is a dual sterilant, low temperature sterilization system that utilizes vaporized hydrogen peroxide (H_2O_2) and ozone (O_3) as its sterilants.

The STERIZONE® VP4 Sterilizer includes a number of validated features such as:

- A unique patent pending *Dynamic Sterilant Delivery System™*, which automatically adjusts the quantity of injected sterilant based on the load composition and condition;
- Up to a 75 lb mixed load capacity;
- A single cycle system able to simultaneously sterilize flexible, rigid, and general medical devices in the same load, thereby eliminating cycle selection error as a cause of ineffective processing;
- A short cycle time relative to other sterilization technologies;
- The largest quantity of mixed devices per load;
- The only two or more sterilant sterilizer cleared by the US regulatory authorities.

Extended Claims – Patient Care Improvement

In October 2015, the STERIZONE® VP4 Sterilizer received clearance from Health Canada (Canadian equivalent of the United States FDA) to sell the STERIZONE® VP4 Sterilizer with extended claims in the Canadian market.

With these claims, the TSO_3 STERIZONE® VP4 Sterilizer is the only new generation low temperature terminal sterilization system available in the market validated to sterilize complex medical instruments such as colonoscopes and other multi-channel flexible scopes, which previously could only be treated in a

less effective process known as “high-level disinfection”. Low temperature sterilization with the STERIZONE® VP4 Sterilizer offers a more effective solution than disinfection, since it involves a proprietary physical and chemical process that thoroughly destroys all types of microbiological organisms, including bacterial spores. Further, the STERIZONE® VP4 Sterilizer terminally sterilizes multiple channels in a single device, an industry first for any medical device sterilization process.

The expanded claims received for the STERIZONE® VP4 Sterilizer in Canada correspond to increasing scrutiny by regulatory authorities over medical device reprocessing, particularly for colonoscopes and other complex medical devices used during minimally invasive surgical procedures. Much of this concern stems from patient-to-patient transfer of multidrug-resistant bacteria, which are inactivated with the STERIZONE® VP4 Sterilizer. Published reports confirm the significant risk of device-related transfer of antibiotic resistant microbes, which can lead to patient injury or death.

This Canadian, and subsequent European, clearance marks the beginning of a new and sorely needed improved-level of patient care, which is consistent with TSO_3’s vision. The allowance of these claims in Canada and Europe helps support the Company’s pursuit of similar claims in other international markets, including the US, where TSO_3 filed studies that support an expanded indication for use of its STERIZONE® VP4 Sterilizer in December 2015.

In December 2015, TSO_3 added to its label claims for the STERIZONE® VP4 Sterilizer in Canada that validates the ability to terminally sterilize a specific duodenoscope. Duodenoscopes are multi-channel endoscopic devices with flexible lighted tubes that are typically threaded through the mouth, throat and stomach and into the top of the small intestine (duodenum). They are used in an increasingly common procedure called endoscopic retrograde cholangiopancreatography (ERCP). ERCP is used primarily to diagnose and treat conditions of the bile ducts and main pancreatic duct, including gallstones, inflammatory strictures (scars), leaks (from trauma and surgery) and cancer.

Duodenoscopes are complex endoscopes, with small working parts that include an elevator guide-wire mechanism that is difficult to reach when reprocessing. This is compounded by the fact that the design varies across brands and models. However, if a duodenoscope is not meticulously reprocessed, living microbes harboring in residual tissue or fluid from a prior procedure can be transmitted via the scope to a subsequent patient.

TSO_3 has established laboratory data validating the STERIZONE® VP4 Sterilizer, with its dual sterilants of hydrogen peroxide and ozone, can repeatedly sterilize the Olympus TJF-Q180V Duodenoscope, the industry’s leading brand and model of duodenoscope. This breakthrough comes at a critical time, with the growing use of duodenoscopes, along with the increasing number of adverse incidents related to ineffectual reprocessing. TSO_3 is preparing documentation to support a US FDA submission to add this device and others to its US label claims.

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 and, in turn, leads to increased patient hospital stays, higher cost of care and greater mortality rates.

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

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

Why Low Temperature Sterile Reprocessing

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

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

Our Competitive Landscape

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

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

Another method that played a role in a sub-segment of low temperature reprocessing was that of liquid chemical sterilization processes. This type of process was used directly in the OR as a just-in-time method to complement the CS department's sterile production. The GI department remains a heavy user of liquid chemical sterilization. Liquid systems require rinsing with treated water that cannot be assured to be sterile, and therefore instruments cannot be assured to be sterile when used on a patient.

Each of these sterilization methods offers benefits to the customers, but none is a complete solution matching the customer need for high and cost effective throughput of complex and expensive medical devices. Therefore, customers have to purchase and support a combination of products to meet their daily requirements for sterile supplies. The Company believes that its technology offers a single solution to address customer needs.

First Quarter 2016 and Recent Activities

Regulatory Status

In March 2016, the Company received FDA 510(k) clearance for a universal design of its STERIZONE® VP4 Sterilizer. The STERIZONE® VP4 Sterilizer, as well as its accessories and consumables, were originally cleared for commercialization in the US in December 2014. The new clearance enables the Company to streamline assembly and shipping around a single sterilizer platform that meets global regulations for electromechanical design.

This universal platform will permit the Company to sell a single product with consistent design and claims language around the globe besides reducing inventory costs and complexity, while improving production rates and efficiency.

We have received and prepared preliminary responses to comments from the FDA regarding the company's expanded claims filed in December 2015 relating to the use of the STERIZONE® VP4 Sterilizer in the U.S. These expanded claims correspond to increasing scrutiny by regulatory authorities over medical device reprocessing, particularly for colonoscopes and other complex medical devices used during minimally invasive surgical procedures. The claims sought in the U.S. represent similar claims for

the STERIZONE® VP4 Sterilizer already available in Canada and those which will accompany the sterilizers' introduction in Europe this year.

Recent Commercial Activities

On November 25, 2015, TSO_3 and Getinge Infection Control AB ("Getinge"), a global leader in infection control solutions, entered into an agreement ("the Getinge Agreement") which granted Getinge exclusive global distributor rights to TSO_3's STERIZONE® VP4 Sterilizer in exchange for US$7.5 million plus performance minimums. In December 2015, TSO_3 received its first purchase order from Getinge which meets the full 2016 contractual minimum purchase amount required by the Getinge Agreement.

The performance requirements of Getinge Agreement are multi-year and based on a formula for minimum unit shipments, with minimum annual commitments reaching in excess of 10% of the estimated annual global replacement market within the first five years. Sales under the Getinge Agreement are made on a fixed price basis in US dollars to Getinge, who will be our only customer for the STERIZONE® VP4 Sterilizer while the Getinge Agreement is in force. Getinge will also receive ongoing technical support from TSO_3 as part of the Getinge Agreement. TSO_3 estimates the annual replacement capital expenditure for the low temperature sterilizer market worldwide totals approximately 3,000 units or $450 million in capital costs, from the end customer's perspective.

The exclusive partnership with a top global provider of infection control devices and services represents an endorsement of the STERIZONE® Sterilization System to sterilize the most challenging loads and complex devices used in healthcare today.

Functional Currency

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

Comparative financial information, previously expressed in Canadian dollars, is now presented in US dollars for all periods shown, using the exchange rate applicable at the financial position date for assets, liabilities and equity, and the average exchange rate of the corresponding periods of the interim condensed consolidated statements of income and comprehensive income and interim condensed consolidated statements of cash flows items.

Cash Position

In the first quarter of 2016, the Company received a total of US$10.1 million of warrant proceeds from the exercise of outstanding warrants to purchase its common stock. These warrants were originally issued in the first quarter of 2015, when the Company closed an equity financing consisting of 9,200,000 units, each of which was comprised of one common share and one common share purchase warrant entitling the holder thereof to acquire one common share at a price of CAD$1.875 at any time prior to March 5, 2017. The warrants were subject to an accelerated expiry if, at any time after September 30, 2015, the closing price of the common shares on the TSX stock exchange equalled or exceeded CAD$2.00 for any 10 consecutive trading days.

On January 5, 2016, TSO_3 accelerated the expiry date of the warrants to February 4, 2016. Of the 8.5 million warrants remaining subject to expiry acceleration as at January 5, 2016, 7.2 million were exercised and 1.3 million expired unexercised for $13.5 million in proceeds in Canadian dollars or $9.7 million in proceeds in US dollars.

The compensation paid to the syndicate of underwriters for this financing included the issuance of 460,000 of compensation warrants, which were exercised during the first quarter of 2016 for total cash proceeds of US$0.4 million.

Intellectual Property

During the first quarter of 2016, a first patent covering the technology embedded in the STERIZONE® VP4 Sterilizer has been granted in Mexico to further expand the geographical patent protection coverage of the Company.

A previously filed International Patent Application on innovative methods to further improve compatibility under differing load conditions has now entered the national phase in several countries, including the United States.

2016 Focus

In 2016 we expect to first focus our resources to help our channel partner to meet and/or exceed the performance objectives outlined in our mutual agreement. To this end, TSO_3 is targeting systems development that shall result in a robust supply chain process and deliver quality product at increasing volumes. We will work collaboratively with our partner preparing targeted international markets for full market entry later in 2016 and throughout 2017. This will involve the support of congress work and key opinion leaders, while conducting selected studies in local markets, when and where these studies can be demonstrated to add value.

It is clear that 2016 will be the year in which revenue flow begins and TSO_3 is in a position to assemble and deliver in excess of 100 sterilizers. To this end, in the first quarter of 2016, the Company supplied 25 STERIZONE® VP4 Sterilizers to Getinge. The rate of sterilizer deployment into end customers will likely be variable as new technology adoption, equipment replacement and installation cycles in hospitals are difficult to predict. We expect additional sterilizer sales during the remainder of 2016. This said, the rate of deliveries to Getinge in the second quarter of 2016 may be reduced in order to focus energies and resources on upgrading our assembly processes and systems in pursuit of our one sterilizer per day objective, and continue our investment in training and supporting Getinge in the deployment of our sterilizers.

Additionally, we continue to invest in incremental product enhancements to our STERIZONE® VP4 Sterilizer to address local market adoption as well as reinitiate the development of the new purpose-built products which leverage our *Dynamic Sterilant Delivery System™* for specific substantial but specialized market niches.

During 2016 we will continue to pursue expanded claims for our STERIZONE® VP4 Sterilizer in the US market. Specifically we are pursuing clearances to sterilize instruments that have previously been subject to high level disinfection processes. Such claims will further differentiate our technology and, equally important, provide today's healthcare providers a new tool to break the cycle of instrument associated to infection transmission.

Lastly, we continue to be focused on the development and commercialization of products in the sterile reprocessing market such as the STERIZONE® 80L Sterilizer. We are regularly presented with and evaluate third party complimentary technologies or product lines for potential acquisition.

Management Discussion and Analysis

This management discussion and analysis (MD&A) is intended to help readers assess the consolidated financial position and consolidated financial performance of TSO_3 Inc. ("TSO_3", the "Company" or "We") for the three-month period ended March 31, 2016 and to compare them with the three-month period ended March 31, 2015. This information is dated May 3, 2016 and should be read in conjunction with the Interim Condensed Consolidated Unaudited Financial Statements and the accompanying notes. Unless specified otherwise, all amounts are stated in US dollars.

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

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

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

Forward Looking Statements

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

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

- Business and economic conditions;
- The ability to obtain sufficient quantities of supplies and materials when needed;
- The ability to obtain regulatory authorizations to market its product;
- The ability to attract and retain skilled staff;
- Market competition;
- Tax benefits and tax rates;
- The ability to complete research and development work;
- The ability for the Company to market its products;
- The success of the relationship with Getinge and suppliers;
- The ability for Getinge to deploy our products to end customers;
- Foreign currency exchange rates;
- The ability for the Company to attract capital.

These forward-looking statements involve risks and uncertainties relating to, among other things, commercial operations, compatibility, biocompatibility, research and development projects, dependency

on key personnel, management of business growth, intellectual property and counterfeiting, competition, product liability issues, litigation, regulatory approvals and financial instruments. Actual results and developments are likely to differ, and may differ materially, from those expressed or implied by the forward-looking statements. Factors that could cause actual results to differ materially include, but are not limited to, the risk factors described under the section “Risk factors” in the Annual Managemenet Discussion and Analysis of the Company for the year ended December 31, 2015 which reflect to our knowledge, the material risks and uncertainties we faced as at March 31, 2016.

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

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

Supplemental Non-IFRS Financial Measures

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

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

The principal supplemental non-IFRS metric the Company uses to assess its operational performance is adjusted Earnings before Interest, Taxes, Depreciation, and Amortization (Adjusted EBITDA). Adjusted EBITDA adjusts net income for (1) realized and unrealized foreign exchange gains or losses, (2) amortization and depreciation expenses (3) share-based compensation expense, (4) amortization or write-downs of certain tangible and intangible assets, (5) income taxes, and (6) other significant unusual items.

Summary of Results

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

	FIRST QUARTER	
	2016	2015
	$	$
Revenues	**3,071**	72
Cost of sales	**1,961**	156
Gross profit (loss)	**1,110**	(84)
Expenses		
Research and development	**606**	441
Selling, general and administrative	**1,385**	955
Other income	**(1,588)**	(22)
Total Expenses	**403**	1,374
Net income (loss) before income taxes	**707**	(1,458)
Income taxes	**58**	-
Net income (loss)	**649**	(1,458)
Other comprehensive income (loss)		
Item that will not be reclassified subsequently to net income		
Translation adjustements	**-**	(718)
Net comprehensive income (loss)	**649**	(2,176)
Weighted Average Number of Outstanding Shares (in thousands)	**88,552**	76,160
Basic and diluted net income (loss) per Share (in $)	**0.01**	(0.02)
Basic and diluted net comprehensive income (loss) per Share (in $)	**0.01**	(0.03)

Results Analysis

In the following paragraphs, the Company discusses the variations of certain accounts within the first quarter ending March 31 of 2016 and 2015.

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

REVENUES

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

For the first quarter of 2016, sales amounted to $3.1 million, as compared to $0.1 million in the first quarter of 2015. We shipped 25 STERIZONE® VP4 Sterilizers to Getinge in the US the first quarter of 2016, as well as associated accessories, and consumables, and recognized $0.1 million of Getinge licensing revenue. On December 18, 2015, the Company received a purchase order from Getinge for the full amount of the 2016 minimum purchase commitment associated with the Getinge Agreement.

Other than its sale of products, the Company also generates license revenue resulting from the Getinge Agreement. These revenues are recognized as services are rendered and products are delivered over the term of the Getinge Agreement.

NET INCOME (NET LOSS)

In the first quarter of 2016, net income totaled $0.6 million or $0.01 per share, as compared to a net loss of $1.5 million or $0.02 per share in the first quarter of 2015. This profit was largely driven by sterilizer sales and a $1.6 million non-recurring foreign exchange translation gain recorded as a result of the conversion of Canadian dollars into US dollars during the quarter.

Excluding the foreign exchange gain, the Company's net loss in the first quarter of 2016 was $0.9 million ($0.01 per share), as compared to $1.5 million ($0.02 per share) in 2015. In the first quarter of 2016, profit contribution from sales of STERIZONE® VP4 Sterilizers more than offset incremental operating costs relative to the prior year.

in thousands of us dollars	FIRST QUARTER	
	2016	2015
	$	$
Net income (loss), as reported	**649**	(1,458)
Foreign exchange gain on conversion of cash, cash equivalent and short-term investments	**(1,578)**	-
Adjusted Net Loss	**(929)**	(1,458)
Adjusted Net Loss per Share (in $)	**(0.01)**	(0.02)

NET COMPREHENSIVE INCOME (LOSS)

The statement of comprehensive income includes the change in equity during a period resulting from transactions and other events, other than those changes resulting from transactions with owners in their capacity as owners. For the quarter ender March 31, 2016, the Company incurred no material events which would have impacted its comprehensive gain or loss. For the quarter ender March 31, 2015, the change of functionnal currency had an impact related to foreign exchange and was included in the other comprehensive loss.

Adjusted EBITDA[(1)]

in thousands of US dollars	**2016**				2015
	Q1	Q4	Q3	Q2	Q1
Net income (loss), as reported	**649**	(2,160)	(1,295)	(1,423)	(1,458)
Adjustments					
Income taxes	**58**	-	-	-	-
Depreciation of property, plant and equipment	**39**	63	61	58	57
Amortization of intangible assets	**38**	43	41	41	42
Share-based compensation	**216**	182	114	118	62
Write-off of intangible assets	**-**	-	-	-	173
One-time foreign exchange gain on conversion of cash, cash equivalents and short-term investments	**(1,578)**	-	-	-	-
Adjusted EBITDA	**(578)**	(1,872)	(1,079)	(1,206)	(1,124)

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

EXPENSES

Foreign Exchange Impact

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

The majority of the Company's expenses in 2015 and the early part of 2016 are denominated in Canadian dollars. Fluctuations in the value of Canadian dollars relative to US dollars will have an impact on our operating results as expenditures in Canadian dollars are not offset by revenues in the same currency.

In the first quarter of 2016, total expenses denominated in Canadian dollars were CAD$3.4 million million, as compared to CAD$2.1 million in 2015. The average CAD/USD foreign exchange rate in the first quarter 2016 was 1.3518 as compared to 1.2627 in the first quarter of 2015, or a 7% decrease in expenses year over year. This decrease as a result of foreign exchange is generally evenly distributed over all our expense line items on the income statement. The net impact of change in presentation currency for the comparative year is recorded as other comprehensive income.

Cost of sales

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

For the three month period ended March 31, 2016, cost of sales equaled $2.0 million, as compared to $0.2 million for the same period in 2015. In the first quarter of 2016 we shipped 25 sterilizers as opposed to none in the same quarter of 2015. In the first quarter of 2015 our manufacturing overhead expenses exceeded revenues as we began to ramp early stage production capacity in advance of demand.

Research and development

For the quarter ended March 31, 2016, research and development expenses were $0.6 million as compared to $0.4 million for the same period in 2015. In 2015, TSO_3 concentrated its effort on its new STERIZONE® VP4 Sterilizer while in 2016, the Company increased salary and consultant expenses to work on new project development as well as extended claims for its current STERIZONE® VP4 Sterilizer.

Selling, General and Administrative (SG&A)

Selling, general and administrative (SG&A) expenses increased to $1.4 million for the quarter ended March 31, 2016 as compared to $1.0 million for the the same period in 2015. SG&A includes marketing, sales and service and administrative expenses.

In the first quarter of 2016, the Company increased salary, share-based compensation, professional fees and sales, marketing and investor relations traveling expenses while in the first quarter of 2015, the Company incurred $0.2 million of expense in connection with a write down of abandoned patents.

Share-based compensation expense

For the quarter ended March 31, 2016, intangible and share-based compensation amortization amounted to $0.2 million as compared to $0.06 million for the same period in 2015. As at March 31, 2016, the Company had 6.0 million options oustanding, as compared to 4.0 million options outstanding at the same date in 2015. Share-based compensation amortization grew as the company issued more stock options to new and existing employees, and the Black-Scholes value of each option was higher as a result of a higher underlying stock price at the time of grant. These expenses are presented in the Interim Condensed Consolidated Statements of Income and Comprehensive Income in the expense line items which correspond to the functions of the option holders.

Other income

For the quarter ended March 31, 2016, other income amounted to $1.6 million, as compared to $0.02 million for the same period in 2015. Following the change in functional currency from Canadian dollars to US dollars, the Company converted substantially all its cash, cash equivalent and short-term investments previously held in Canadian dollars into US dollars. The foreign exchange gain realized following this conversion was $1.6 million in Q1-2016 and was recorded in net income.

Financial Position Analysis

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

	March 31, 2016 $	December 31, 2015 $
Cash, cash equivalents and short-term investments	**24,385**	15,111
Accounts receivable	**2,030**	437
Inventories	**2,021**	1,302
Property, plant and equipment	**429**	366
Intangibles assets	**1,708**	1,691
Accounts payable and accrued liabilities	**2,032**	1,288
Warranty provision	**165**	29
Deferred revenues (short and long term)	**7,385**	7,536
Equity	**21,093**	10,133

Liquid Assets

As at March 31, 2016, cash, cash equivalents and short-term investments amounted to $24.4 million, as compared to $15.1 million as at December 31, 2015. The Company received $10.1 million in total cash proceeds from the exercise of 7.7 million warrants and recorded a cash gain of $1.6 million from the translation of Canadian dollars into US dollars in the first quarter of 2016. This influx of cash was offset by approximately $1.7 million in cash used to fund working capital to support our growing business, and $0.7 million in cash used in operations, when excluding the foreign exchange translation gain.

Accounts Receivable

As at March 31, 2016, the accounts receivable amounted to $2.0 million, as compared to $0.4 million as at December 31, 2015. Receivables from Getinge represented $1.5 million at the end of the first quarter of 2016. Other amounts included in both periods are largely made up of amounts recoverable from governments for tax credits.

Inventories

As at March 31, 2016, inventories amounted to $2.0 million, as compared to $1.3 million as at December 31, 2015.

	March 31, 2016 $	December 31, 2015 $
Raw Materials	**1,358**	700
Work in Progress	**344**	273
Finished Goods	**319**	329
	2,021	1,302

In the fist quarter of 2016, we grew our inventories to support the growth of sales of STERIZONE® VP4 Sterilizers.

Property, Plant and Equipment

Property, plant and equipment remained largely unchanged from December 31, 2015 to March 31, 2016. During the period we invested in equipment and tools to improve our production rate and in medical devices to perform testing related to extended claims of the STERIZONE® VP4 Sterilizer, which was largely offset by amortization for the period.

Intangibles Assets

For Q1-2016, the amount of intangible assets did not vary materially between December 31, 2015 and March 31, 2016 as capitalized intangible assets generally matched intangible asset amortization.

Accounts Payable and Accrued Liabilities

As at March 31, 2016, accounts payable and accrued liabilities amounted to $2.0 million, as compared to $1.3 million as at December 31, 2015. The increase is due to trade payables related to the increase in raw material purchases and in professionnal fees related to year-end administrative efforts.

Deferred Revenues

At the end of the first quarter 2016, deferred revenues represented the unamortized portion of prepaid service contracts covering a part of the installed base of STERIZONE® 125L+ Sterilizers in Canada as well as the unamortized part of the deferred license revenue received under the Getinge Agreement.

During the first quarter of 2016 the Company recorded $0.1 million of license revenue from deferred revenue as services are rendered and products are delivered over the term of the Getinge Agreement.

Shareholders' Equity

As at March 31, 2016, Shareholders' Equity amounted to $21.1 million, as compared to $10.1 million as at December 31, 2015. The variation is primarily the result of the net proceeds of $10.1 million from warrants exercised in Q1-2016 in connection with the equity issue closed by the Company on March 5, 2015.

As at March 31, 2016, the number of outstanding shares was 91,007,389 (83,324,789 as at December 31, 2015).

Cash Flows Analysis

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

	FIRST QUARTER	
	2016	2015
	$	$
Operating Activities	**(723)**	(921)
Investing Activities	**309**	(2,751)
Financing Activities	**10,145**	8,264
Effect of exchange rates on cash and cash equivalents	-	(518)

Operating Activities

Cash used by the operating activities amounted to $0.7 million for the first quarter of 2016, as compared to $0.9 million for the corresponding period in 2015.

The company recorded a cash gain of $1.6 million from the translation of Canadian dollars into US dollars in the first quarter of 2016. This was offset by approximately $1.7 million in cash used to fund working capital adjustments to support our growing business, and $0.9 million in net loss, when excluding the foreign exchange translation gain.

Investing Activities

For the three-month period ended March 31, 2016, investing activities generated $0.3 million, as compared to $2.8 million consumed for the same period in 2015; an increase resulting mainly from the disposal of short-term investments in Q1-2016.

Financing Activities

For the three-month period ended March 31, 2016, financing activities generated $10.1 million as compared to $8.3 million for the same period in 2015. Both periods were impacted by the equity issue closed on March 5, 2015. In the first quarter of 2016 we received $10.1 million from warrant exercises for warrants originally issued in Q1 of 2015, while in the first quarter of 2015 we received a net amount of $8.3 million from the initial share issuance.

Summary of Quarterly Results

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

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

	2016 Q1	Q4	Q3	Q2	2015 Q1
Revenues	**3,071**	151	914	111	72
Net income (loss)	**649**	(2,160)	(1,295)	(1,423)	(1,458)
Net income (loss) per Share (basic and diluted, in $)	**0.01**	(0.03)	(0.02)	(0.02)	(0.02)

Segmented Information

The Company is structured as a single operating segment.

Substantially all of our, property, plant and equipment as well as inventories are located in Canada.

Sales are allocated between geographic areas based on the location of the invoiced client and are as follows for periods ended March 31:

			FIRST QUARTER	
	2016		2015	
in thousands of US$	***$***	**%**	$	%
Canada	**203**	**7**	72	100
United States	**2,868**	**93**	-	-
	3,071	**100**	72	100

The Company has earned an important part of its revenues from Getinge. For the first quarter of 2016, these revenues represented 93% of the Company's sales (none for the same period in 2015). Shipments to that client were made in the United States.

Off-Balance Sheet Arrangement

The Company made no off-balance sheet arrangement during the first quarter of 2016 other than purchase orders issued in the normal course of business.

Additional Disclosure – Unrecorded Tax Assets

The Company has accumulated a substantial amount of losses, unclaimed expenses and tax credits that could be claimed in the future to reduce income taxes. The related deferred income tax assets will be recorded on the Condensed Consolidated Financial Statements only when the Company concludes that these tax assets will probably be materialized by shielding profits from taxes, or otherwise. If the Company had reached this conclusion on March 31, 2016, an amount of $26.04 million in tax assets would have been recorded based on an effective rate of 15% for federal taxes and 11.9% for provincial taxes (same amount as at December 31, 2015).

Capital Resources

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

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

The Company invests its funds in highly liquid short-term investments as required by its Investment Policy (see section on Risk Factors). These securities are chosen on the basis of foreseen cash requirements and safety.

Accounting Policies

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

Risk Factors

We operate in industry segments that have a variety of risk factors and uncertainties. We hereby incorporate by reference the risks and uncertainties described in our Annual Management Discussion and Analysis of the Company for the year ended December 31, 2015 which reflect, to our knowledge, the material risks and uncertainties we faced as at March 31, 2016.

Disclosure and Internal Controls

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

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

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

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

An evaluation of the design of DC&P and ICFR is carried out annually under the supervision of the CEO and the CFO and the results of the last such evaluation were communicated to the Board of Directors as part of the review made in connection with the end of fiscal year 2015. This evaluation consisted of a review of documentation, audits and other procedures that management considered appropriate in the circumstances.

Based on this evaluation and using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) on Internal Control – Integrated Framework and in connection with the preparation of its financial report and management's discussion and analysis, the two certifying officers consider the design of DC&P and ICFR to be adequate for the Company's reporting for the interim period ended March 31, 2016.

Changes in internal controls over financial reporting

No changes were made to the Company's internal controls over financial reporting that occurred during the quarter ended March 31, 2016 that have materially affected, or are reasonably likely to materially affect, the internal controls over financial reporting.

Interim Condensed Consolidated Unaudited Financial Statements

For the three-month periods ended March 31, 2016 and 2015

Interim Condensed Consolidated Statements of Income and Comprehensive Income

(Unaudited, in thousands of US dollars, except per share amounts)
Periods ended March 31, 2016 and 2015

	Notes	FIRST QUARTER 2016 $	2015 $
Revenues	15	**3,071**	72
Cost of sales		**1,961**	156
Gross profit (loss)		**1,110**	(84)
Expenses	5		
Research and development		**606**	441
Selling, general and administrative		**1,385**	955
Other income	4	**(1,588)**	(22)
Total expenses		**403**	1,374
Net income (loss) before income taxes		**707**	(1,458)
Income taxes		**58**	-
Net income (loss)		**649**	(1,458)
Other comprehensive income (loss)			
Item that will not be reclassified subsequently to net income			
Translation adjustements	2	**-**	(718)
Total comprehensive income (loss)		**649**	(2,176)
Basic and diluted net income (loss) per share	16	**0.01**	(0.02)
Basic and diluted net comprehensive income (loss) per share		**0.01**	(0.03)

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

Interim Condensed Consolidated Statements of Changes in Equity

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

	Notes	Share Capital $	Reserve-Share-Based Compen-sation $	Reserve – warrants $	Deficit $	Other comprehensive income $	Total $
Balance at January 1, 2015		90,079	3,539	-	(85,119)	-	8,499
Issuance of share capital and warrants	11	8,620	-	488	-	-	9,108
Share-based compensation	12	-	62	-	-	-	62
Options exercised	11	3	(1)	-	-	-	2
Compensation warrants issued to underwriters	13	(86)	-	86	-	-	-
Share and warrant issue expenses	11	(802)	-	(44)	-	-	(846)
Net impact of change in presentation currency	2	-	-	-		(718)	(718)
Net loss for the period		-	-	-	(1,458)	-	(1,458)
Balance at March 31, 2015		97,814	3,600	530	(86,577)	(718)	14,649
Balance at April 1, 2015		97,814	3,600	530	(86,577)	(718)	14,649
Share-based compensation	12	-	414	-	-	-	414
Options exercised	11	63	(24)	-	-	-	39
Share and warrant issue expenses	11	(61)	-	(5)	-	-	(66)
Warrants exercised	11, 13	1,001	-	(32)	-	-	969
Net impact of change in presentation currency	2	-	-	-	-	(994)	(994)
Net Loss for the Period		-	-	-	(4,878)	-	(4,878)
Balance at December 31, 2015		98,817	3,990	493	(91,455)	(1,712)	10,133
Balance at January 1, 2016		98,817	3,990	493	(91,455)	(1,712)	10,133
Warrants exercised	11, 13	10,486	-	(391)	-	-	10,095
Warrants expired	13	-	-	(102)	102	-	-
Share-based compensation	12	-	216	-	-	-	216
Net income for the period		-	-	-	649	-	649
Balance at March 31, 2016		109,303	4,206	-	(90,704)	(1,712)	21,093

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

Interim Condensed Consolidated Statements of Financial Position

(Unaudited, in thousands of US dollars)

	Notes	March 31, 2016 $	December 31, 2015 $
Current Assets			
Cash and Cash Equivalents	6	**22,385**	12,654
Short-term Investments	6	**2,000**	2,457
Accounts Receivable		**2,030**	437
Inventories	7	**2,021**	1,302
Prepaid Expenses		**102**	79
		28,538	16,929
Non-current Assets			
Property, Plant and Equipment	8	**429**	366
Intangible Assets	9	**1,708**	1,691
		2,137	2,057
		30,675	18,986
Current Liabilities			
Accounts Payable and Accrued Liabilities		**2,032**	1,288
Warranty Provision		**165**	29
Deferred Revenues	10	**949**	801
		3,146	2,118
Non-current Liabilities			
Deferred Revenues	10	**6,436**	6,735
		9,582	8,853
Equity			
Share Capital	11	**109,303**	98,817
Reserve – Share-based Compensation	12	**4,206**	3,990
Reserve – Warrants	13	**-**	493
Accumulated Deficit		**(90,704)**	(91,455)
Accumulated Other Comprehensive Loss	2	**(1,712)**	(1,712)
		21,093	10,133
		30,675	18,986

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

Interim Condensed Consolidated Statements of Cash Flows

(Unaudited, in thousands of US dollars)
Periods ended March 31, 2016 and 2015

	Notes	THREE MONTHS 2016 $	2015 $
Cash flows from operating octivities			
Net Income (loss)		**649**	(1,458)
Adjustments for:			
Depreciation and amortization		**77**	99
Write-off of intangible assets		**-**	173
Share-based compensation	12	**216**	62
Financial income	4	**(38)**	(13)
		904	(1,137)
Changes in non-cash operating working capital items	14	**(1, 656)**	203
Interest received		**29**	13
Cash flows used in operating activities		**(723)**	(921)
Cash flows from investing activities			
Acquisition of short-term investments		**(2,000)**	(2,684)
Disposal of short-term investments		**2,466**	-
Acquisition of property, plant and equipment	8	**(102)**	(32)
Acquisition of intangible assets	9	**(55)**	(35)
Cash flows generated by (used in) investing activities		**309**	(2,751)
Cash flows from financing activities			
Issuance of share capital and warrants	11	**-**	9,108
Share capital and warrants Issue expenses	11	**-**	(846)
Options exercised	11	**-**	2
Warrants exercised	11, 13	**10,145**	-
Cash flows generated by financing activities		**10,145**	8,264
Effect of exchange rates on cash and cash equivalents		**-**	(519)
Increase in cash and cash equivalents		**9,731**	4,073
Cash and cash equivalents at the beginning		**12,654**	5,149
Cash and cash equivalents at the end		**22,385**	9,222

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

Notes to the Interim Condensed Consolidated Financial Statements

Periods ended March 31, 2016 and 2015
(Unaudited, in thousands of US dollars, unless otherwise indicated)

1. Description of Business

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

2. Accounting Policies

Statement of Compliance

The Interim condensed consolidated unaudited financial statements ("financial statements") are prepared in compliance with International Accounting Standard 34 – Interim Financial Reporting ("IAS 34"). Accordingly, certain information and footnote disclosure normally included in annual financial statements prepared in accordance with International Financial Reporting Standards (IFRS) and applicable as at March 31, 2016 have been omitted or condensed. As such, these financial statements should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2015.

Accounting Policy Adopted

On December 18, 2014, the IASB issued Disclosure Initiative (Amendments to IAS 1) as part of its major initiative to improve presentation and disclosure in financial reports. The amendments to IAS 1 relate to (1) materiality; (2) order of the notes; (3) subtotals; (4) accounting policies; and (5) disaggregation and are designed to further encourage companies to apply professional judgment in determining what information to disclose in their financial statements. As at January 1, 2016, the Company adopted the amendments to IAS 1 and it had no impact on its financial statements.

Basis of Presentation

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

Comparative financial information previously expressed in Canadian dollars is now presented in US dollars for all periods shown, using the exchange rate applicable at the financial position date for assets, liabilities and equity, and the average exchange rate of the corresponding periods of the interim condensed consolidated statements of income and comprehensive income and interim condensed consolidated statements of cash flows items. Adjustments resulting from translations are included in the other comprehensive income in the Equity as at December 31, 2015.

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

Notes to the Interim Condensed Consolidated Financial Statements

Periods ended March 31, 2016 and 2015
(Unaudited, in thousands of US dollars, unless otherwise indicated)

2. Accounting Policies (cont'd)

Presentation Currency and Foreign Currency Translation

Starting on January 1, 2016, foreign currency transactions of the Company are translated into US dollars as follows: monetary assets and liabilities are translated at the exchange rate in effect at the reporting date, non-monetary assets and liabilities are translated at historical rates, revenues and expenses are translated at the exchange rates in effect at the time of the transaction, and exchange gains or losses resulting from translation are recorded in net income.

Comparative numbers as at December 31, 2015 are translated into US dollars as follows: assets, liabilities and equity are translated at the exchange rate in effect at the reporting date, revenues and expenses are translated at the exchange rates in effect at the time of the transaction, and exchange gains or losses resulting from translation are recorded in the other comprehensive income.

Revenue Recognition

Sales

The Company generates revenue from the sale of sterilizers, related spare parts and maintenance services, consumable supplies, accessories and compatibility testing services. The Company recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred, the price to the buyer is fixed or determinable and collection is reasonably assured. In addition, the Company earns revenue from service contracts that is recognized using the straight-line method over the term of each contract.

Revenue from bill-and-hold arrangements is recognized when it is probable that delivery will be made, the item is clearly identified and ready for delivery, the buyer specifically acknowledges the deferred delivery instructions and usual payment terms apply.

License Revenue

The Company also generates license revenue resulting from an exclusive distribution agreement with Getinge Infection Control. These revenues are recognized as services are rendered and products are delivered over the term of the Getinge Agreement (see Note 10).

Financial Income

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

Warranty Provision

The Company offers a standard 12-month warranty on goods sold to its clients. The estimated cost of the warranty is based on the Company's history with defective sterilization devices and their related spare parts and accessories, the probability that these defects will materialize and their repair costs.

Notes to the Interim Condensed Consolidated Financial Statements

Periods ended March 31, 2016 and 2015
(Unaudited, in thousands of US dollars, unless otherwise indicated)

2. Accounting Policies (cont'd)

Critical Accounting Judgments and Key Sources of Estimates Uncertainty

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

1. *Recoverability of Long-Lived Assets:*

   On an annual basis, the Company evaluates if there are indicators of impairment. When such indicators are identified, the Company is required to perform an impairment test in order to measure the recoverable amount of its long-lived assets. The main judgments made by management for the impairment test performed as at December 31, 2015 were the following:

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

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 management of the supply chain function based on its experience and knowledge of the current market conditions.

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

   Government assistance and research and development tax credits are recorded in the financial statements under item "Research and Development" when there is reasonable assurance that the Company has complied with, and will continue to comply with, all of the conditions necessary to obtain the assistance. In general, the Company recognizes 80 % of the amount that it expects to receive at the time a claim is recorded.

4. *Share-Based Compensation:*

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

Notes to the Interim Condensed Consolidated Financial Statements

Periods ended March 31, 2016 and 2015
(Unaudited, in thousands of US dollars, unless otherwise indicated)

2. Accounting Policies (cont'd)

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

5. Warrants Valuation:

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

6. Deferred Income Taxes:

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

7. Functional Currency:

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

8. *Revenue Recognition:*

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

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

3. Future Accounting Changes

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

The IASB also published IFRS 15 - Revenue from Contracts with Customers, which replaces all the revenue standards and interpretations in IFRS, including IAS 11 - Construction Contracts and IAS 18 - Revenue. The IFRS 15 is effective for annual periods beginning on or after January 1, 2018, subject to approval by the Accounting Standards Board. Early adoption is permitted for IFRS 15. The Company is currently evaluating the impact of this new standard on its financial statements.

Notes to the Interim Condensed Consolidated Financial Statements

Periods ended March 31, 2016 and 2015
(Unaudited, in thousands of US dollars, unless otherwise indicated)

3. Future Accounting Changes (cont'd)

On January 29, 2016, the IASB published an amendment to IAS 7 - Statement of Cash Flows. The amendment, "Disclosure Initiative" clarifies that changes in liabilities arising from financing activities, including cash and non-cash changes, shall be disclosed in the Statement of Cash Flows. The provisions of this amendment will apply to financial statements beginning on or after January 1, 2017. Early adoption is permitted. The Company is currently evaluating the impact of this amendment on its financial statements.

On September 16, 2014, the IASB published an amendment to IFRS 10 – Consolidated Financial Statements and to IAS 28 - Investments in Associates and Joint Ventures. The amendment "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture" clarifies the accounting for the gain or loss resulting from loss of control or from transfer of assets following a transaction with an associate or joint venture. Originally, the provisions of this amendment were supposed to apply prospectively to financial statements beginning on or after January 1, 2016. However, in December 2015, IASB published an amendment which defers the application to financial statements beginning on or after to a date to be determined. Early adoption is permitted. The Company is currently evaluating the impact of this amendment on its financial statements.

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

4. Other Income

	FIRST QUARTER	
	2016	2015
	$	$
Investment Income	**38**	13
Bank Charges	**(8)**	(4)
Foreign Exchange Gain	**1,558**	13
	1,588	22

5. Additional Information on the Statements of Income and Comprehensive Income

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

	FIRST QUARTER	
	2016	2015
	$	$
Salary and Other Benefits	**1,251**	799
Share-based compensation expense	**216**	62
Depreciation of Property, Plant and Equipment	**39**	57
Amortization of Intangible Assets	**38**	42

Notes to the Interim Condensed Consolidated Financial Statements

Periods ended March 31, 2016 and 2015
(Unaudited, in thousands of US dollars, unless otherwise indicated)

6. Financial Instruments

Cash and Cash Equivalents

	March 31, 2016 $	December 31, 2015 $
Cash	**19,113**	6,291
Investments with Maturities of Three Months or Less		
Bank Guaranteed Investment Certificates	**3,272**	6,363
	22,385	12,654

Bank Guaranteed Investment Certificates were rated AA- or better and had an average yield of 0.20%.

Short-term Investments

	March 31, 2016 $	December 31, 2015 $
Bank Guaranteed Investment Certificates	**2,000**	2,457

Short-term Investments were rated AA- or better and had an average yield of 0.35%.

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

No transfer between Level 1 and Level 2 of the fair value hierarchy has been made during the period ended March 31, 2016 (no transfer in 2015).

7. Inventories

	March 31, 2016 $	December 31, 2015 $
Raw Materials	**1,358**	700
Work in Progress	**344**	273
Finished Goods	**319**	329
	2,021	1,302

8. Property, Plant and Equipment

During the period ended March 31, 2016, the Company acquired equipment and tools of $0.06 million and medical devices for $0.04 million. For the entire year 2015, the Company acquired $0.2 million in equipment and tools, marketing demonstration equipment, medical devices, computer equipment and leasehold improvements.

Notes to the Interim Condensed Consolidated Financial Statements

Periods ended March 31, 2016 and 2015
(Unaudited, in thousands of US dollars, unless otherwise indicated)

9. Intangible Assets

During the period ended March 31, 2016, the Company acquired $0.06 million of new patents, licences and trademarks. For the entire year 2015, the Company acquired $0.26 million in patents, licences, trademarks and software.

10. Deferred Revenues

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

The Company recorded the US$7.5 million received as deferred revenues which shall be recorded as revenue over the life of the agreement.

Sales under the Getinge Agreement are made on a fixed price basis in US dollars to Getinge, who will be the only customer for the STERIZONE® VP4 Sterilizer while the Getinge Agreement is in force.

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

11. Share Capital

Authorized:

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

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

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

Issued:

	March 31, 2016		December 31, 2015	
Issued and Paid	**Number of Common Shares**	**$**	Number of Common Shares	$
Balance at Beginning	**83,324,789**	**98,817**	73,399,656	90,079
New Issue	**-**	**-**	9,200,000	7,671
Options Exercised	**-**	**-**	42,333	66
Warrants Exercised	**7,682,600**	**10,486**	682,800	1,001
Balance at the End	**91,007,389**	**109,303**	83,324,789	98,817

Notes to the Interim Condensed Consolidated Financial Statements

Periods ended March 31, 2016 and 2015
(Unaudited, in thousands of US dollars, unless otherwise indicated)

11. Share Capital (cont'd)

On March 5, 2015, the Company closed a public equity issue of 9.2 million units in the capital of the Company at the price of US$0.99 (CAD$1.25) per unit for aggregate gross proceeds of US$9.1 million (CAD$11.5 million).

Each unit was comprised of one common share and one warrant entitling to acquire one common share at a price of US$1.45 (CAD$1.875) at any time prior to March 5, 2017. The warrants were subject to an accelerated expiry if, at any time after September 30, 2015, the published closing trade price of the common shares on the TSX was equal or greater than US$1.54 (CAD$2.00) for any 10 consecutive trading days. As at January 5, 2016, the Company announced the acceleration of the expiry date to February 4, 2016 (Note 13).

The compensation paid to the syndicate of underwriters was equal to a sale commission of 7% of the gross proceeds from the equity issue, and the issuance of 460,000 compensation warrants. Each compensation warrant enabled its holder to purchase one common share of the Company at the price of US$0.99 (CAD$1.25) until March 5, 2016. These compensation warrants had a fair value of $0.09 million (CAD$0.11 million) (Note 12).

During the quarter ended March 31, 2016, in connection with the exercise of warrants, the Company issued 7,682,600 common shares for a cash consideration of US$10.1 million (682,800 common shares for a cash consideration of US$0.97 million for the year ended December 31, 2015).

Net cash proceeds from the 2015 issue were US$8.2 million (CAD$10.35 million) after payment of the underwriters' commission and the cash expenses of the issue. Expenses incurred in connection with the equity issue and the underwriters' commission were allocated to the Share Capital and the Reserve - Warrants based on a pro rata of the respective fair value estimated for each share issued and for each issued warrant.

During the first quarter ended March 31, 2016, pursuant to the Company's Stock Option Plan, none stock options have been exercised. During the year ended December 31, 2015, holders exercised 42,333 options for an aggregate cash consideration of US$0.04 million.

Employee Stock Purchase Plan

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

12. Reserve – Share-Based Compensation

The Company's Board of Directors adopted a Share-Based Compensation plan in the form of an option plan designed solely for directors, executives, key employees and service providers of the Company. The plan was approved by the shareholders. The total number of common shares that can be issued under this plan from the Company's share capital was 8.16 million as at March 31, 2016, (8.16 million as at December 31, 2015). The options awarded pursuant to this plan generally vest over a three-year period and may be exercised within a maximum of 10 years from the date of award.

Notes to the Interim Condensed Consolidated Financial Statements

Periods ended March 31, 2016 and 2015
(Unaudited, in thousands of US dollars, unless otherwise indicated)

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

During the first quarter ended March 31, 2016, the Company awarded 1.05 million stock options, (0.63 million for the first quarter of 2015) at a weighted average exercise price of US$1.31 or CAD$1.80 (US$0.98 or CAD$1.36 for the same period in 2015). The weighted average fair value of these stock options was US$0.66 or CAD$0.91 for the three-month periods of 2016 (US$0.44 or CAD$0.61 for the same period in 2015).

The Share-Based Compensation expense pertaining to the award of options is amortized using the graded vesting method and represents a share-based compensation expense of US$0.2 million for the three-month period ended March 31, 2016 (US$0.06 million for the same period in 2015) presented in the Interim Condensed Consolidated Statements of Income and Comprehensive Income in the functions based on the option holders.

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

US$	**March 31, 2016**	December 31, 2015
Weighted Average Share Price	**$1.33**	$1.24
Exercise Price	**$1.31**	$1.24
Risk Free Interest Rate	**0.89%**	1.36%
Estimated Share Price Volatility	**45%**	44%
Expected Life	**8 years**	8 years
Expected Dividend Yield	**0%**	0%

The Share-Based Compensation expenses takes into account an estimate of the number of options that will actually vest and be exercised. In addition, option pricing models such as the Black-Scholes model require highly subjective assumptions, including the assumed stock price volatility of the underlying shares. Volatility was estimated for the 2016 and 2015 awards on the basis of the historical volatility of the Company's share price prior to the date of award. Any change in the assumptions can materially affect the fair value estimates.

		March 31, 2016 Weighted Average Exercise Price	December 31,2015 Weighted Average Exercise Price	
US$	**Number**	**$**	Number	$
Outstanding at beginning	**4,993,568**	**0.89**	3,369,535	0.70
Granted	**1,050,000**	**1.31**	1,971,500	1.24
Exercised	**-**	**-**	(42,333)	0.91
Expired	**(24,203)**	**2.47**	(48,467)	0.98
Forfeited	**-**	**-**	(256,667)	0.92
Outstanding at end	**6,019,365**	**0.82**	4,993,568	0.89
Exercisable at end	**3,113,699**	**0.71**	2,947,068	0.72

Notes to the Interim Condensed Consolidated Financial Statements

Periods ended March 31, 2016 and 2015
(Unaudited, in thousands of US dollars, unless otherwise indicated)

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

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

	Outstanding Options		Exercisable Options	
Exercise Price in US$	**Number**	**Average Remaining Contractual Life (year)**	**Number**	**Average Remaining Contractual Life (year)**
$0.29 to $0.73	**2,082,500**	**4.00**	**1,816,667**	**3.36**
$0.83 to $1.52	**3,182,600**	**5.45**	**1,124,267**	**5.80**
$1.55 to $2.66	**754,265**	**7.66**	**172,765**	**0.74**
	6,019,365	**5.23**	**3,113,699**	**4.10**

The following table summarizes certain information regarding the stock options of the Company as at December 31, 2015:

	Outstanding Options		Exercisable Options	
Exercise Price in US$	**Number**	**Average Remaining Contractual Life (year)**	**Number**	**Average Remaining Contractual Life (year)**
$0.29 to $0.73	2,082,500	4.25	1,767,500	3.49
$0.83 to $1.52	2,132,600	6.12	982,600	6.24
$1.55 to $2.66	778,468	7.67	196,968	0.89
	4,993,568	5.58	2,947,068	4.23

13. Reserve – Warrants

	March 31, 2016		December 31, 2015	
US$	**Number**	**Weighted Average Exercise Price $**	Number	Weighted Average Exercise Price $
Outstanding at Beginning	**8,977,200**	**1.33**	-	-
Issued	**-**	**-**	9,660,000	1.33
Exercised	**(7,682,600)**	**1.31**	(682,800)	1.35
Expired	**(1,294,600)**	**1.36**	-	-
Outstanding at End	**-**	**-**	8,977,200	1.33
Exercisable at End	**-**	**-**	8,977,200	1.33

Notes to the Interim Condensed Consolidated Financial Statements

Periods ended March 31, 2016 and 2015
(Unaudited, in thousands of US dollars, unless otherwise indicated)

13. Reserve – Warrants (cont'd)

During the first quarter of 2015, 9.2 million warrants were issued to purchasers of units on the closing date of the bought deal offering by prospectus in March 2015. The warrants were subject to an accelerated expiry if at any time after September 30, 2015, the published closing trade price of the Company's common shares on the TSX was equal to or greater than US$1.54 (CAD$2.00) for 10 consecutive trading days. These warrants, allowed their holders to purchase 9.2 million shares at a price of US$1.33 (CAD$1.875) per share until their March 5, 2017 expiry. On January 5, 2016, the Company has prevailed itself of an option to accelerate the maturity of the warrants to February 4, 2016. On March 5, 2015, the fair value of each of these warrants was US$0.05 (CAD$0.067), for an aggregate value of US$0.46 million (CAD$0.62 million). Of the 8.5 million warrants subject to expiry acceleration as at January 5, 2016, 7.2 million were exercised and 1.3 million expired unexercised. The total proceeds from the 7.2 million warrants subject to an accelerated expiry associated with the 2015 financing equaled US$9.68 million (CAD$13.5 million).

In addition, 460,000 warrants were issued as part of the compensation to the underwriters in connection with the equity issue closed on March 5, 2015. Each of these 460,000 compensation warrants were exercisable to acquire one common share at the exercise price of US$0.91 (CAD$1.25) until March 5, 2016. On March 5, 2015, the fair value of each of these warrants was US$0.17 (CAD$0.235), for an aggregate value of US$0.08 million (CAD$0.11 million). From January 1, 2016 to the expiration date of March 5, 2016, all compensation warrants had been exercised for total cash proceeds of US$0.42 million (CAD$0.58 million).

The fair value of the warrants issued was estimated using the Black-Scholes option pricing model using the following assumptions:

	March 31, 2016	December 31, 2015
Weighted Average Share Price	**-**	$0.92
Exercise Price	**-**	$1.37
Risk Free Interest Rate	**-**	1.45%
Estimated Share Price Volatility	**-**	43.5%
Expected Life (without the option to accelerate the maturity)	**-**	23 months
Expected Dividend Yield	**-**	0%

At any time when warrants expire without being exercised or are being cancelled, the Company is authorized to transfer to the Deficit the corresponding amount that was included in the Reserve for Warrants. Consequently, upon the expiration of 1.29 million warrants on February 4, 2016, the corresponding reserve of US$0.1 million was transferred to the Deficit.

Notes to the Interim Condensed Consolidated Financial Statements

Periods ended March 31, 2016 and 2015
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14. Additional Information Relating to Cash Flows

	FIRST QUARTER	
	2016	2015
	$	$
Changes in Non-Cash Operating Working Capital Items		
Decrease (Increase) in Current Assets		
Accounts Receivable	**(1,593)**	(5)
Inventories	**(719)**	35
Prepaid Expenses	**(23)**	(10)
Increase (Decrease) in Current Liabilities		
Accounts Payable, Accrued Liabilities and Warranty Provision	**880**	218
Deferred Revenues	**(151)**	(35)
	(1,606)	203
Warrants exercised receivable	**(50)**	-
	(1,656)	203
Research and Development Tax Credits		
Received	**199**	24

15. Segmented Information

The Company is structured as a single operating segment.

Substantially all of our, property, plant and equipment as well as inventories are located in Canada.

Sales are allocated between geographic areas based on the location of the client and are as follows for periods ended March 31, 2016 and 2015:

			FIRST QUARTER	
		2016		2015
	$	**%**	**$**	**%**
Canada	**203**	**7**	72	100
United States	**2,868**	**93**	-	-
	3,071	**100**	72	100

The Company has earned an important part of its revenues from Getinge. For the first quarter of 2016, these revenues represented 93% of the Company's sales (none for the same period in 2015). Shipments to that client were made in the United States.

Notes to the Interim Condensed Consolidated Financial Statements

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16. Income (Loss) per Share

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

	FIRST QUARTER	
in thousands of US dollars, except per share amounts	**2016 $**	2015 $
Net income (Loss)		
Basic and Diluted	**649**	(1,458)
Number of Shares		
Weighted Average Number of Outstanding Shares	**88,552,277**	76,159,693
Number of Shares		
Weighted Average Number of Outstanding Shares Diluted	**94,257,377**	76,159,693[(1)]
Income (Loss) per Share		
Basic and Diluted	**0.01**	(0.02)
Comprehensive income (Loss) per Share Basic and Diluted	**0.01**	(0.03)

1) If the Company had a positive profit, the weighted average number of outstanding shares diluted would have been increased by 3.15 million as of March 31, 2015 for the calculation of the diluted net loss per share.

17. Approval of Financial Statements

The interim condensed consolidated financial statements were approved by the Board of Directors on May 3, 2016.