2015

QUARTERLY REPORT

July – August – September

Creating the Improved Standard in Sterile Reprocessing™

TABLE OF CONTENTS

Message from the Chief Executive Officer

To Our Valued Shareholders,

On October 26, 2015 TSO_3 announced that the Company had received Health Canada clearance to market the STERIZONE® VP4 Sterilizer with extended claims in Canada. These new claims are an industry first as they relate to the sterilization of multi-channeled flexible endoscopes and further extend the claims superiority of our sterilizer in the industry.

These improved claims propose a new level of patient care and safety for patients in Canada. Following a routine procedure, the colonoscope will be cleaned, inspected, packaged and then placed in a TSO_3 innovation, the STERIZONE® VP4 Sterilizer, where it will be sterilized. Once sterilized, it will be returned and ready for use on the next patient. The colonoscope will be a sterile device, with no risk of patient to patient transfer of infection.

This seemingly obvious requirement of having a sterilized scope will actually be medical history in the making. Accomplishing this feat required hard work, time and resources. Resources that you, the owners of the Company supplied each time they were needed so that we could get to this place in time. We have started something entirely new and something truly needed. Its starts in Canada, but we see the move around the globe.

Today we reported our financial results for the third quarter and achieved revenues of $1.2 million. These sales are a direct result of work completed with Getinge Infection Control in the USA, our non-exclusive partner. Their work continues to build an ever increasing set of targeted opportunities, with a comprehensive pipeline set for 2016. In addition they have continued to advertise for and expand their dedicated sales resources in North America with the addition of sales specialists.

During the third quarter and subsequent to its close, potential customers visited TSO_3's Quebec facility as well as active hospital installations to learn more about the Canadian in-use experience with our sterilizer. In addition, during October, TSO_3's U.S. subsidiary in Myrtle Beach, dodged the flooding conditions from Hurricane Joaquin and initiated shipment of consumables to U.S. hospital customers.

In summary, the Company has been immersed with our STERIZONE® VP4 Sterilizer deployment in the U.S. and reaching new milestones in the Canadian marketplace with our expanded claims during the quarter. There is clear evidence of commercial progress. Our near term goals will focus on supporting the commercial roll-out while obtaining a consistent set of ground breaking extended claims across North America.

To our employees, board of directors and shareholders, I offer my continued thanks and commitment towards creating the "*Improved Standard in Healthcare Sterile Reprocessing™*."

Sincerely,

R.M. (Ric) Rumble

Overview

Who We Are and What We Do

TSO_3 Inc. was founded in June 1998 in Québec City and TSO_3 Corporation in 2015 in the United States. TSO_3 employs 42 people as at September 30, 2015. The Company's activities encompass the sale, production, maintenance, research, development and licensing of sterilization processess, 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.

TSO_3 Corporation, TSO_3's wholly-owned subsidiary founded in Q2-2015, is structured under the laws of the State of Delaware and located in the State of South Carolina, USA. TSO_3 Corporation was created to meet US customer requirements. The US represents 40% of the worldwide market for low temperature sterilization equipment. The United States location will be used for warehousing and distribution of consumables, light assembly as well as offer customer service and education to US customers.

The First Generation Technology

Initially, TSO_3 developed a sterilizer using a unique sterilization process based solely on ozone as the sterilizing agent. It offered superior sterile efficacy and lower operating costs compared to competitive systems and was considered a "green" technology. However, this first generation product provided limited instrument compatibility and a relatively long sterilization cycle.

This first generation sterilizer received regulatory clearances from both Health Canada and the United States Food and Drug Administration (FDA). The product however did not address the overall market need for compatibility, fast turn-around times and high-throughput 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 New Approach

In 2009, the Company developed a new sterilization platform utilizing hydrogen peroxide and ozone, as sterilizing agents. New sterilizers were also equipped with a newly developed *Dynamic Sterilant Delivery System*™. The resulting product provided both improved cycle time and material compatibility enabling increased throughput of a wider range of medical devices, including some of the most complex and delicate instruments used in Minimally Invasive Surgeries (MIS). The STERIZONE® 125L+ Sterilizer was licensed by Health Canada in 2009 and CE marked in 2010.

In December 2014, TSO_3 achieved another major milestone in its history, when it received 510(k) clearance from the FDA. This clearance allowed the Company to initiate commercial activities for the STERIZONE® VP4 Sterilizer in the United States. The STERIZONE® VP4 and 125L+ Sterilizers use similar technology platforms. The STERIZONE® VP4 Sterilizer features a single cycle that can simultaneously sterilize flexible, rigid, and general medical devices in the same load. The FDA recognized the uniqueness of this sterilizer by issuing a brand new Product Code ("PJJ"), representing sterilization technologies using two or more sterilants. The STERIZONE® VP4 Sterilizer is the only product in this Product Classification.

The single cycle STERIZONE® VP4 Sterilizer can sterilize a large number and wide range of compatible devices, thereby allowing for cost-effective error-free sterilization process. TSO_3's unique *Dynamic Sterilant Delivery System*™ automatically adjusts the quantity of injected sterilant based on the load composition, weight and temperature. With its large 75-lb load capacity and a short cycle time, the STERIZONE® VP4 Sterilizer meets the requirements of the hospitals' Central Sterilization Departments in terms of cost reduction and high throughput, and enables the replacement of a combination of competitive sterilization methods.

Patient Care Improvement

Recently, the Company received clearance from Health Canada to sell the STERIZONE® VP4 Sterilizer with extended claims in the Canadian market place. With these claims, the STERIZONE® VP4 Sterilizer becomes the only low temperature sterilization system available in the market today that is capable of sterilizing complex medical devices such as colonoscopes as well as other multi-channel flexible scopes which up until this clearance could only be treated in a less effective process known as high level disinfection.

The expanded claims received for the STERIZONE® VP4 Sterilizer correspond to increasing scrutiny by regulatory authorities over medical device reprocessing, particularly for colonoscopes and other complex medical devices used during minimally invasive surgery procedures. Much of this concern stems from patient-to-patient transfer of multidrug-resistant bacteria, which are not inactivated by high-level disinfection, but are inactivated with the STERIZONE® VP4. Published reports confirm the significant risk of device-related transfer of antibiotic resistant microbes, which can lead to patient injury or death.

This clearance marks the beginning of a new and sorely needed improved level of patient care, which is consistent with TSO_3 published vision. The allowance of these claims in Canada helps support the Company pursuit of similar claims in other international markets, including the United States.

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

The growing and aging population worldwide (65 years +) demands more of the Operating Room (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 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. Currently, 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 – they require low temperature sterilization. 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 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 an important role in a sub-segment of low temperature sterilization was that of Liquid Chemical Sterilization. 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 extensively treated water that cannot be assured to be sterile. As such, instruments also 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.

Third Quarter 2015 and Recent Activities

Regulatory Status

On December 17, 2014, TSO_3 obtained commercial clearance to market in the United States the single-cycle STERIZONE® VP4 Sterilizer, as well as its accessories and consumables.

The clearance in the US allows the Company to sell the STERIZONE® VP4 Sterilizer in the world's largest sterilization market. The 510(k) was received with a newly assigned Product Code, which highlights the uniqueness of our technology and establishes a new benchmark in the field of low temperature sterilization.

At the end of October 2015, TSO_3 obtained commercial clearance to market in Canada the single-cycle STERIZONE® VP4 Sterilizer, as well as its accessories and consumables. This is the same product currently sold in the USA. At the same time, the STERIZONE® VP4 Sterilizer becomes the only low temperature sterilization system available in the market having the claims in Canada to sterilize complex medical devices such as colonoscopes and other multi-channel flexible scopes. The Company continues to pursue these claims in all markets, including the United-States.

Furthermore, TSO_3 currently holds commercial clearance in Europe for the STERIZONE® 125L+ Sterilizer, as well as its accessories and consumables.

Recent Commercial Activities

Starting in Q2 2015, the Company has increased its activities to create awareness of its superior sterilizer. During the last six months, the identified customer target base has grown as has the pipeline of quotations. During the third quarter of 2015, through its effort, the Company has recognized the first sales in the US Market. These sales are the result of the collaborative relationship between Getinge Infection Control, its sales and service provider, and the Company. The first sales of the STERIZONE® VP4 Sterilizer in the United States mark the beginning of a new era for TSO_3.

Intellectual Property

The Company has received Notice of Acceptance from the US Patent Office for the first of several patent applications covering critical aspects of TSO_3's technology. This technology is embedded in the TSO_3 STERIZONE® Sterilization System. During the third quarter of 2015, a new patent application covering an additional critical aspect of TSO_3's technology has been filed in the United-States to strengthen patent protection of the STERIZONE® VP4 Sterilizer and to create an added-value to the Company and to its shareholders.

Write-Off of Assets and Discontinuation of the Ozone-only 125L Sterilizer

In November 2014, the Company decided to discontinue supporting its first generation sterilizer, the 125L ozone-only Sterilizer and also decided to retire that technology from its portfolio. As a result of these decisions, as at December 31, 2014, the Company wrote-off inventories and patents related to that technology. During the Q1-2015, the Company completed the review of its active portfolio of patents and wrote-off additional patents and patent applications for a net amount of $214,209. No write-off was made since then.

2015 Focus

- Secure and support commercial agreement(s) with one or more partners to launch the STERIZONE® Sterilization System in the United States as well as other targeted markets;
- Expand claims for the existing STERIZONE® Sterilization products, including compatibility endorsements from medical devices manufacturers, and re-initiate work on the STERIZONE® 80L Sterilizer;
- Increase production activities to meet demand;
- Maintain compliance with existing regulatory clearances and other applicable laws and regulations.

Management Discussion and Analysis

The Management discussion and analysis (MD&A) is intended to help readers assess, through the eyes of management, the consolidated financial position and results of operations of TSO_3 Inc. ("TSO_3" or the "Company") for the three-month period ended September 30, 2015 and to compare them with the three-month period ended September 30, 2014. This information is dated November 3, 2015 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 Canadian 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 annual 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 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 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” of this report.

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.

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 aim 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 to be useful in assessing the Company’s capacity to discharge its financial obligations.

By excluding from its results the items that arise mainly from long-term strategic decisions and/or do not, in management’s opinion, reflect the Company’s operating performance for the period, such as (1) the write-off of tangible and intangible assets, (2) research and development tax credits, whose recognition is volatile, varies with changes in tax laws, or may not match the timing of related eligible expenditures, and (3) other significant unusual items, management believes this MD&A helps users to better analyze the Company’s results and ability to discharge its obligations as they become due. Furthermore, the use of non-IFRS measures helps users by enabling better comparability of results from one period to another and better comparability with other businesses in the Company’s industry.

The non-IFRS measures that the Company uses to assess its operational performance include (1) adjustments in operating expenses designed to enable comparison of results from one period to another, and (2) a measure for the rate at which the Company is using its cash resources. Management believes these measures to be useful in assessing the Company’s capacity to discharge its current and future financial obligations.

Summary of Consolidated Results

Periods ended September 30 (Unaudited, IFRS Basis)

	THIRD QUARTER		NINE MONTHS	
	2015	2014	**2015**	2014
	$	$	**$**	$
Sales	**1,209,901**	98,545	**1,436,481**	312,481
Expenses				
Supply Chain	**879,886**	246,283	**1,409,362**	707,246
Marketing, Sale and Service	**254,841**	61,853	**635,655**	234,292
Research and Development	**713,663**	667,219	**1,905,461**	1,789,756
Administrative	**1,079,549**	570,656	**2,817,869**	1,968,929
Financial Income	**(33,974)**	(23,443)	**(94,836)**	(91,350)
Financial Costs	**(1,763)**	2,822	**11,453**	15,974
Total Expenses	**2,892,202**	1,525,390	**6,684,964**	4,624,847
Net Loss before Income Taxes	**(1,682,301)**	(1,426,845)	**(5,248,483)**	(4,312,366)
IncomeTaxes	**-**	-	**-**	-
Net Loss and Comprehensive Loss attributable to Shareholders	**(1,682,301)**	(1,426,845)	**(5,248,483)**	(4,312,366)
Basic and Diluted Net Loss per Share	**(0.02)**	(0.02)	(0.06)	(0.06)
Weighted Average Number of Outstanding Shares	**82,916,519**	73,105,716	**81,406,817**	73,036,227

Results Analysis

In the following paragraphs, the Company discusses the variations of certain accounts within the third quarter's of 2015 and 2014 and during the nine-month periods ended September 30, 2015 and September 30, 2014.

SALES

Sales, during the first half of 2015 and throughout all of 2014 consisted of consumables as well as revenues from service contracts in connection with the STERIZONE® 125L+ Sterilizers historically sold in Canada. Revenues in Q3-2015 included the first sales of the new STERIZONE® VP4 Sterilizer marketed in the United States.

In Q3-2015, sales amounted to $1,209,901, as compared to $98,545 during the same period in 2014. The higher sales in 2015 are the result of sales conducted in the American market with the new STERIZONE® VP4 Sterilizer. For the nine-month period ended September 30, 2015, sales amounted to $1,436,481, as compared to $312,481 for the same period in 2014.

NET LOSS

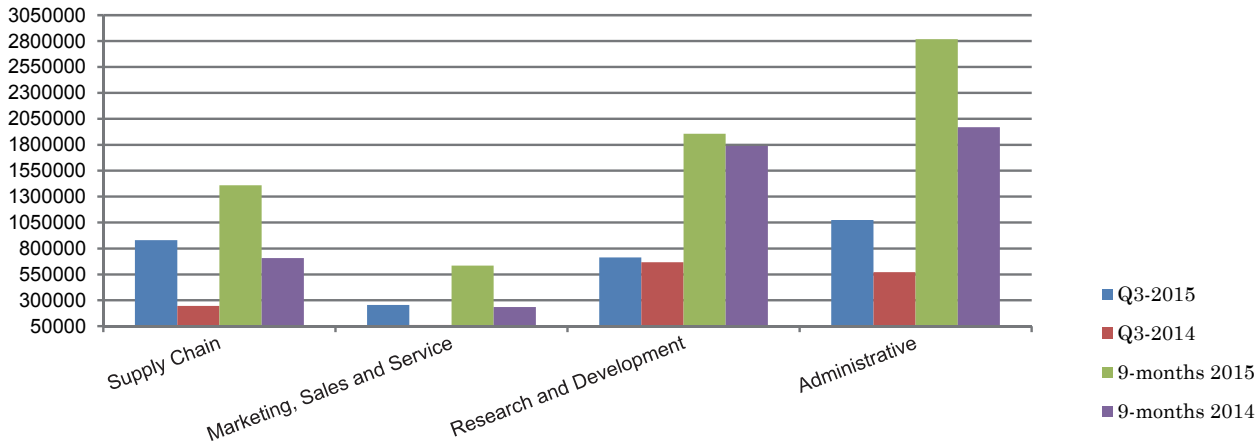
In the third quarter of 2015 the Company experienced a loss of $1,682,301 ($0.02 per share), as compared to $1,426,845 ($0.02 per share) in Q3-2014. For the nine-month period ended September 30, 2015, the net loss amounted to $5,248,483**,** as compared to $4,312,366 for the same period in 2014. The higher loss in 2015 is reflecting the increase in marketing efforts, the decrease in R&D tax credits, the severance to an executive member as well as a one-time item related to the write-off of patents in 2015 which were only partially offset by the increase in sales in Q3-2015.

	THIRD QUARTER		NINE MONTHS	
	2015	2014	**2015**	2014
	$	$	**$**	$
Net Loss, as reported	**(1,682,301)**	(1,426,845)	**(5,248,483)**	(4,312,366)
Adjustments				
Write-off of Patents	**-**	-	**(214,209)**	-
R&D Tax Credits Recognized	**16,564**	24,328	**145,186**	420,934
Severance to an executive member	**(394,139)**	-	**(394,139)**	-
Adjusted Net Loss	**(1,304,726)**	(1,402,517)	**(4,785,321)**	(4,733,300)
Adjusted Net Loss per Share	**(0.02)**	(0.02)	**(0.06)**	(0.06)

When restating the results to exclude those adjustments, the net loss in the third quarter of 2015 is $1,304,726 ($0.02 per share), as compared to $1,402,517 ($0.02 per share) in 2014. The lower net loss in Q3-2015 is the result of initial sales of the new STERIZONE® VP4 Sterilizer. For the nine-month period ended September 30, 2015, the net loss amounted to $4,785,321 ($0.06 per share), as compared to $4,733,300 ($0.06 per share) for the same period in 2014, which represents a small variation of $52,021 between both years.

Besides the elements presented in the previous table, expenses and sales in 2015 are higher as a result of the ramp up of activities in the United States.

EXPENSES



Supply Chain

Supply Chain expenses include all expenses incurred in connection with (1) outsourcing services provided by the Supply Chain Department to all departments, (2) production costs, (3) related quality control and assurance expenses, (4) cost of services sold to end-users, and (5) shipping expenses.

For the three-month period ended September 30, 2015, the Supply Chain expenses amounted to $879,886, as compared to $246,283 for the same period in 2014**.** For the nine-month period ended September 30, 2015, these expenses amounted to $1,409,362, as compared to $707,246 for the same period in 2014. The variation is largerly the result of higher operation costs in 2015 to support the increased sales volume related to the STERIZONE® VP4 Sterilizer in the United States.

Marketing, Sales and Service

For the quarter ended September 30, 2015, the Marketing, Sales and Service expenses amounted to $254,841, as compared to $61,853 for the same period in 2014. For the nine-month period ended September 30, 2015, these expenses amounted to $635,655, as compared to $234,292 for the same period in 2014. The larger amount in 2015 is due to an increase (1) in marketing-related activities, including trade shows and professional association meetings, (2) in customer related travel expenses, and (3) in salaries and commissions expenses in connection with the expansion in the United States currently underway.

Research and Development

For the quarter ended September 30, 2015, Research and Development expenses were $713,663, as compared to $667,219 in Q3-2014. For the nine-month period ended September 30, 2015, these expenses amounted to $1,905,461, as compared to $1,789,756 for the same period in 2014. The year-to-year comparisons are impacted by the recognition of R&D tax credits in 2014.

	THIRD QUARTER		NINE MONTHS	
	2015	2014	**2015**	2014
	$	$	**$**	$
R&D Expenses as reported	**713,663**	667 219	**1,905,461**	1 789 756
R&D Tax Credits	**16,564**	24,328	**145,186**	420,934
R&D Expenses Before Tax Credits	**730,227**	691 547	**2,050,647**	2,210,690

Before accounting for the tax credits, R&D expenses were $730,227 in Q3-2015, as compared to $691,547 in Q3-2014. For the nine-month period ended September 30, 2015, before R&D tax credits, R&D expenses amounted to $2,050,647, as compared to $2,210,690 in 2014. The variation is the result of lower contractual work related to the FDA clearance in 2015.

Administrative

For Q3-2015, administrative expenses amounted to $1,079,549, as compared to $570,656 for the third quarter of 2014. The variation is mainly the result of higher travel expenses related to investors relations and the severance amount of $394,139 due to an executive member.

For the nine-month period ended September 30, 2015, administrative expenses were $2,817,869, as compared to $1,968,929 for the same period in 2014. The 2015 figure reflects a write-off of $214,209 in connection with abandoned patents and a severance amount of $394,139. When adjusted for those amounts, administrative expenses for the first nine months of 2015 were $2,209,521. The larger amount in 2015 is due to an increase (1) in computer related expenses, (2) in legal fees due to the incorporation of the subsidiary TSO_3 Corporation, (3) in investors relations activities, including travel expenses, and (4) a general increase in expense items in connection with the ramp-up in activities in the United-States.

Financial Position Analysis

(Unaudited, IFRS Basis)

	SEPTEMBER 30, 2015 $	DECEMBER 31, 2014 $
Cash, Cash Equivalents and Short-term Investments	**12,207,275**	5,973,446
Accounts Receivable	**1,504,484**	257,694
Inventories	**1,513,822**	1,293,503
Property, Plant and Equipment	**482,411**	557,515
Intangibles Assets	**2,255,410**	2,432,653
Accounts Payable and Accured Liabilities	**1,414,732**	676,058
Warranty Provision	**40,000**	-
Deferred Revenues	**39,858**	82,019
Equity	**16,569,064**	9,859,028

Liquid Assets

As at September 30, 2015, cash, cash equivalents and short-term investments amounted to $12,207,275, as compared to $5,973,446 as at December 31, 2014. The variation is largerly due to the net proceeds of $10,350,265 from the public equity offering closed on March 5, 2015, the net proceeds of $1,211,250 from warrants exercised and issued as part of that offering, and by the cash absorbed by operations during the first three quarters of 2015.

Accounts Receivable

As at September 30, 2015, the accounts receivable amounted to $1,504,484, as compared to $257,694 as at December 31, 2014. The 2015 accounts receivable included an amount of $1,114,612 receivable from Getinge Infection Control. As at September 30, 2015, excluding this amount, receivables amounted to $389,872. In both periods, 2014 and 2015, receivables are made of amounts recoverable from clients and from governments for Research and Development tax and input tax credits for sale taxes which are higher at the end of Q3-2015.

Inventories

As at September 30, 2015, inventories amounted to $1,513,822, as compared to $1,293,503 as at December 31, 2014.

	SEPTEMBER 30, 2015 $	DECEMBER 31, 2014 $
Raw Materials	**1,072,873**	918,993
Work in Progress	**322,399**	310,166
Finished Goods	**118,550**	64,344
	1,513,822	1,293,503

Other than as a consequence of normal usage and turn over, the net variation of $220,319 between December 31, 2014 and September 30, 2015 is due primarily to the increase in raw materials and finished goods inventory. The difference observed between both periods in raw materials represents parts in order to build a number of sterilizers to meet demand.

Property, Plant and Equipment

The amount of Property, Plant and Equipment did not vary materially between December 31, 2014 and September 30, 2015 as the Company capitalized only $147,649, including $64,753 as Marketing and Demonstration Equipment, with a total depreciation amount of $222,753 during the same period.

Intangibles Assets

During Q3-2015, the amount of intangible assets decreased from $2,432,653 on December 31, 2014 to $2,255,410 on September 30, 2015. Most of that variation was due to the net write-off of $214,209 in Q1-2015 in connection with abandoned patents. In addition, the Company added $193,178 in intangible assets, mostly patents, and amortized those assets by an amount of $156,212.

Accounts Payable and Accrued Liabilities

As at September 30, 2015, accounts payable and accrued liabilities amounted to $1,414,732, as compared to $676,058 as at December 31, 2014. The increase is due to an increase (1) in trade payables for an amount of $420,618 almost exclusively related to the increase in inventories and (2) in accrued liabilities for an amount of $222,332 regarding the severance payable to an executive member.

Warranty Provision

The warranty provision increased of $40,000 as at September 30, 2015 due to the sale of sterilizers.

Deferred Revenues

Deferred revenues represent the unamortized portion of prepaid service contracts covering a part of the installed base of STERIZONE® 125L+ Sterilizers in Canada. As at September 30, 2015, deferred revenues amounted to $39,858, as compared to $82,019 as at December 31, 2014. That decrease is due to the normal amortization of currently outstanding maintenance contracts partially offset by the renewal of service contracts with some canadian hospitals.

Shareholders' Equity

As at September 30, 2015, Shareholders' Equity amounted to $16,569,064, as compared to $9,859,028 as at December 31, 2014. The variation is primarily the result of the net proceeds of $10,350,265 from the equity issue closed by the Company on March 5, 2015, the net proceeds of $1,211,250 from the warrants exercised and the absoption of the operating deficits incurred in the first three quarters of 2015.

Cash Flows Analysis

(Unaudited, IFRS Base)

	NINE MONTHS	
	2015	2014
	$	$
Operating Activities	**(5,041,934)**	(2,884,006)
Investing Activities	**(2,708,318)**	1,345,464
Financing Activities	**11,584,081**	323,750

Operating Activities

Cash absorbed by Operating Activities amounted to $5,041,934 for the nine-month period ended September 30, 2015, as compared to $2,884,006 for the corresponding period in 2014.

The higher amount of cash absorbed by operations during 2015 as compared to 2014 is mostly due to (1) the increase in operating expenses due to the expansion in the american market and (2) the fact that, in 2014, the Company collected $990,066 more in R&D tax credits than in 2015 related to years 2011 and 2012.

Investing Activities

For the nine-month period ended September 30, 2015, Investing Activities absorbed $2,708,318, as compared to $1,345,464 generated during the same period in 2014. Other than variations resulting from transferring funds from an investment account to a bank account, Investing Activities absorbed $308,318 in 2015, as compared with $94,284 in 2014, an increase of $214,034 resulting from a bigger investment in patents and in marketing and demonstration equipment.

Financing Activities

For the nine-month period ended September 30, 2015, $11,584,081 was generated by Financing Activities, as compared to $323,750 for the same period in 2014. The increase is mainly due to the closing of an equity issue on March 5, 2015, the exercise of warrants and the exerice of options by option holders.

Summary of Quarterly Results

(Unaudited, IFRS Basis)

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

($000 EXCEPT LOSS/SHARE)			**2015**				2014	2013
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Sales	**1,210**	137	90	120	99	132	82	98
Net Loss	**(1,682)**	(1,748)	(1,818)	(1,635)	(1,427)	(1,325)	(1,561)	(1,415)
Net Loss per Share (basic and diluted)	**(0.02)**	(0.02)	(0.02)	(0.02)	(0.02)	(0.02)	(0.02)	(0.02)

Segmented Information

The Company is structured as a single operating segment.

As at September 30, 2015, almost all property, plant and equipment of the Company 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 September 30:

	THIRD QUARTER				NINE MONTHS			
	2015		2014		**2015**		2014	
	$	**%**	**$**	**%**	**$**	**%**	$	%
Canada	**101,886**	**8**	90,570	92	**328,466**	**23**	238,788	76
Rest of the world	**1,108,015**	**92**	7,975	8	**1,018,015**	**77**	73,693	24
	1,209,901	**100**	98,545	100	**1,436,481**	**100**	312,481	100

Contractual Commitments

As at September 30, 2015, the contractual commitments for future fiscal years are as follows:

	2016	2017	2018	2019	2020
	$	$	$	$	$
Operating leases and service contracts	222,000	104,000	84,000	82,000	55,000

OFF-BALANCE SHEET ARRANGEMENT

Other than disclosed under the heading “Contractual Commitments” and purchase orders issued in the normal course of business, the Company made no off-balance sheet arrangement during the the third quarter of 2015.

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 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 September 30, 2015, an amount of $26,430,000 in tax assets would have been recorded based on an effective rate of 15% for federal taxes and 11.9% for provincial taxes. As at December 31, 2014, the net amount was $25,020,000.

Capital Resources

The Company needs capital primarily to finance its activities in connection with its supply chain, its marketing, sales and service, its research and development, its administration, as well as 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.

In the past, the Company has financed its activities primarily through equity issues and, to a much lesser extent, through research and development tax credits. Given its history of negative earnings, it is unlikely at the present time that the Company could access senior debt financing for any meaningful amount from traditional sources such as commercial banks.

In connection with its monitoring of the cash position of the Company, management uses a non-IFRS measure designated as the *"cash burn rate"* or *"burn rate".* Such measure is equal to the variation in liquidities (cash, cash equivalents, and short-term investments) during a period augmented by the net cash proceeds from financings that occurred during such period.

For the three-month period ended September 30, 2015, the average monthly burn rate was $637,953, as compared to $314,227 for the same period in 2014. The burn rate in Q3-2015 is higher due to the increase in production.

For the nine-month period ended September 30, 2015, the average monthly burn rate was $597,875, as compared to $445,061 for the same period in 2014. The burn rates in Q1-2015 and Q1-2014 have benefited from the collection of R&D tax credits claimed for the years 2010, 2011 and 2012. When adjusted for those volatile and non recurrent items, the monthly average burn rate for the nine-month periods ended September 30, 2015 and September 30, 2014 are respectively $594,472 and $331,660. The burn rate for this period is higher in 2015 due to the ramp up of activities which has started consuming cash at the beginning of 2015.

As at September 30, 2015, the Company had $12,207,275 in liquidities (cash, cash equivalents and short-term investments). Based on the average monthly burn rate of $637,953 experienced during the last quarter representing expenses level due to the expansion regarding the STERIZONE® VP4 Sterilizers, these liquidities would be sufficient to finance the Company's activities until the beginning of the second quarter of 2017. Besides, if all warrants issued in connection with the equity issue closed on March 5, 2015 not yet exercised are exercised, it would provide $16,613,750 to the Company.

The Company invests its liquidities 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.

As at September 30, 2015, the number of outstanding shares was 83,263,989.

Use of Proceeds from the March 5, 2015 Public Offering

The following disclosure is made in compliance with paragraph (i) of Item 1.4 of Form 51-102F1 of National Instrument 51-102 of Canadian Securities Laws applicable to the Company which requires the Company to compare in tabular form previous public disclosure made about how the Company was to use proceeds (other than working capital) from any financing and to provide an explanation of variances and the impact of the variances, if any, on the Company's ability to achieve its business objectives and milestones.

On February 25, 2015, the Company issued a prospectus in connection with a share and warrant issue closed on March 5, 2015 with net proceeds of $10,350,000. The following table compares (1) how the Company was then estimating to spend the net proceeds from the issue and (2) the actual use of these funds:

	USE OF FUNDS AS ORIGINALLY PLANNED	ACTUAL USE OF FUNDS AS AT SEPTEMBER 30, 2015	FUNDS REMAINING TO BE USED	VARIANCE
Net proceeds from the issue, including the overallotment option	10,445,000	10,350,265	9,195,776	(94,735)
Use of proceeds				
Initiate and Support commercialization efforts for STERIZONE® 125L+ and STERIZONE® VP4 Sterilizers:				
Trade show and marketing collateral	1,250,000	159,314	1,090,686	-
Staffing	1,750,000	276,524	1,473,476	-
Support the ramp up of production activities	3,000,000	474,295	2,525,705	-
Extend material compatibility studies	1,000,000	172,863	827,137	-
Advance development of STERIZONE® 80L	1,000,000	-	1,000,000	-
General corporate and administrative purposes	2,445,000	71,493	2,278,772	(94,735)
Total Use of funds from March 5, 2015 until December 31, 2016	10,445,000	1,154,489	9,195,776	(94,735)

More than six months after the closing of the issue, most of the proceeds from the equity issue have not yet been used. As the funds are to be utilized to fund expenses that will occur over the next several months, no variance (other than the expenses from the issue) has yet materialized.

Accounting Policies

The reader is refered to notes 2 and 3 of our Annual Audited Financial Statements for the Condensed Consolidated Unaudited Financial Statements for the third quarter ended September 30, 2015 for a detailed presentation of accounting policies, critical accounting judgments, key source of estimation uncertainty and futures accounting changes.

Risk Factors

The Company has identified certain risks and uncertainties that may have a material adverse effect on its business, results of operations, or financial condition. In any such case, the market price of its common shares could decline, and investors may lose all or part of their investment. Only potential investors who are experienced in high risk investments and who can afford to lose their entire investment should consider an investment in the Company.

The following list of risk factors is not expected to be exhaustive but investors should carefully consider them before purchasing securities of the Company. Accordingly, the Company does not, and nor should shareholders of the Company or purchasers of common shares, rely on forward-looking statements as a prediction of actual results. In addition, investors should understand that the Company operates in a rapidly changing business, economic and regulated environment, and new risk factors emerge from time to time. The risks described below are not the only ones the Company faces as additional risks not currently known or identified by the Company, or because the Company believed those risks being immaterial may also significantly impair its business operations.

Limited Revenue History and a History of Previous Losses

Since its inception in June 1998, TSO_3 has not yet generated significant revenues from the sale of its products except in the second half of 2011 and the first half of 2012. Until now, the Company has spent its resources in order to develop new products, submit and, in certain jurisdictions, obtain marketing clearances and conduct limited commercial activities. Additional investments in research and development are required to continue the development and to support the application for clearance in the United States of new products based on the Company's's technology. It is unknown whether any of TSO_3's future products will obtain the necessary clearances to be marketed in all major jurisdictions, including the United States.

Some of the products currently being developed may not be commercially available for some years to come or may be discontinued altogether, for reasons not within the control of the Company, and this may create difficulties or delays in operations or marketing efforts undertaken by TSO_3 as well as potential difficulties in achieving manufacturing and purchasing efficiencies.

Lack of revenue and the need for continued spending to support research and development and submissions to regulatory authorities has resulted in the accumulation of sizable losses since the Company was founded.

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, in order to get the US clearance through the 510(k) process, a manufacturer must identify an existing "predicate" device from which to compare the new technology. The Company has effectively demonstrated in the past that such "predicate" devices were equivalent with its first generation sterilizer and with its most recent technology, the STERIZONE® VP4 Sterilizer.

The Company has obtained clearance in Canada in December 2009 and in the European Community in March 2010 for its new generation STERIZONE® 125L+ Sterilizer. While these are important markets and these clearances can be used in other countries, clearance in the US is the most important clearance to obtain and maintain due to the size of that market and its importance in terms of practice. The Company has obtained clearance in the US for the STERIZONE® VP4 Sterilizer in December 2014, a market which size importance in terms of practice is unequaled in the rest of the world. Maintenance of these clearances is critical for the Company, but as laws and regulation change, such maintenance may depend on parameters outside the Company's control.

Indeed, the Company's business and financial condition could be adversely affected in the event that (1) a regulatory authority revokes any regulatory clearances granted in respect of the Company's products; (2) the Company fails to obtain regulatory clearance for modifications to existing products, for new products, or for the marketing of new uses for existing products of the Company; (3) regulatory authorities revise existing policies or regulations, or adopt additional regulations and the Company is unable to comply with such policies and regulations; or (4) the Company's products are subject to a recall.

Numerous statutes and regulations govern the manufacture and sale of sterilizers for medical use in Canada, the United States and other countries where the Company markets or intends to market its products. Such laws and regulations govern, among other things, the approval of manufacturing facilities, testing procedures and controlled research and the advertising of products. Failure to comply with statutes and regulations could result in warning letters, fines and other civil penalties, unanticipated expenditures, withdrawal of regulatory approval, delays in approving or refusing to approve modifications to existing products or new products, product recall or seizure, interruption of production, operating restrictions, injunctions or criminal sanctions.

The Company and its contract manufacturers and suppliers are also subject to numerous provincial and local laws relating to such matters as safe working conditions, manufacturing practices, environmental protection, fire hazard control and disposal of hazardous or potentially hazardous

substances. The Company and its contract manufacturers and suppliers may be required to incur significant costs to comply with such laws and regulations in the future, and such laws and regulations may have an adverse effect on the Company's business. Failure of the Company or its contract manufacturers and suppliers to comply with current or changes in existing regulatory requirements could materially harm the Company's business. Furthermore, there can be no assurance that the Company's contract manufacturers and suppliers will continue to comply with regulatory requirements. In such circumstances, the Company's business or financial condition may be adversely affected.

Healthcare Legislation

The Company operates in a highly regulated industry and new laws, judicial decisions, or new interpretations of existing laws, or decisions, related to healthcare could negatively impact its business, operations and financial condition. Governments of local and foreign jurisdictions have in the past considered, are currently considering and may in the future consider, healthcare policies and proposals intended to curb rising healthcare costs. Future significant changes in the healthcare systems in Canada, the United States or elsewhere in the world, and current uncertainty about whether and how changes may be implemented, could have a negative impact on the demand for the products of the Company. It is not possible to predict whether other healthcare legislation or regulations affecting the Company's business may be proposed or enacted in the future; what effect any legislation or regulation would have on that business; or the effect ongoing uncertainty about these matters will have on the purchasing decisions by the Company's customers. Changes to regulations, standards and guidelines and the establishment of new regulatory authorities may affect the Company's existing or future regulatory clearances.

Marketing and Distribution Challenges

Worldwide distribution of the Company's products critically depends on its channel partners, and the conditions of distribution agreements with such channel partners. Negotiations towards a worldwide exclusive distribution agreement have taken place with potential distributors, including with Getinge Infection Control, a division of the Getinge AB. No such agreement has yet been reached.

There is no guarantee that the right conditions will be reached for a global worldwide exclusive distribution agreement with a potential partner. The Company announced in March 2015 the conclusion of a first commercial agreement with Getinge Infection Control in support of the launch of the STERIZONE® VP4 Sterilization System. The non-exclusive agreement covers multiple markets in which Getinge has significant market share, including North America and other selected markets.

However, there can be no assurance that any worldwide exclusive agreement or regional or non exclusive sale agency agreement with any third parties will be beneficial to the Company. Further, to the extent that the Company relies on third parties to market and distribute its products, the commercial success of such products may become somewhat beyond the Company's control.

Compatibility with Medical Instruments

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 hydrogen peroxide and ozone, TSO_3 seeks to expose instruments to a gentle cycle to reduce to a minimum the frequency and duration that the devices are exposed to hydrogen peroxide and ozone. Nevertheless, oxidation can produce several effects, depending on the material. In order to fully establish the true commercial value of its sterilization process, the Company must continue to 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 and extend ongoing studies in this respect.

Intellectual Property and Technologies

The Company's success depends, in part, on the Company's ability to obtain patents or rights thereto, protect trade secrets, and operate without violating the exclusive rights of third parties.

Although the Company already owns certain pending applications or issued patents, there is no guarantee that such patents are valid, that the pending applications will be allowed, or that the Company will develop other patentable technologies in the future. Moreover, there can be no assurance that a patent granted to the Company or in respect of which the Company holds a license will make the related product more competitive, that third parties will not contest the protection granted by the patent, or that the patents of third parties will not be detrimental to the Company's commercial activities.

In order to protect or enforce the intellectual property rights owned, used or commercialized by the Company, the Company may have to initiate legal proceedings against third parties. The Company may also have to defend claims brought against it or any purchaser or user of its products asserting that such product or process infringes intellectual property rights of third parties. Legal proceedings relating to intellectual property typically are expensive, take significant time and divert management's attention from other business matters. The cost of such litigation could adversely affect the business of the Company. Further, should the Company not prevail in an infringement lawsuit brought against it, the Company may have to pay substantial damages, and could be required to stop the infringing activity or obtain a license to use the patented technology. Such royalty or licensing agreements, if required, may not be available on acceptable terms, if at all. In the event a claim is successful against the Company and the Company cannot obtain a license to the relevant technology on acceptable terms, license a substitute technology or redesign potential products to avoid infringement, the business, financial condition and operating results of the Company could be materially adversely affected. Loss of patent protection could lead to new competition for the Company's current and future products, which could materially and adversely affect the financial prospects for the Company's products.

There is no guarantee that other companies will not independently develop products similar to those of the Company, that they will not imitate the Company's products, or that the Company's competitors will not develop products designed to circumvent the Company's exclusive proprietary rights. The Company may also need to obtain rights for other technologies belonging to third parties, but there is no guarantee that such technologies will be offered to the Company on acceptable terms. If the Company does not obtain such licenses, the commercialization of one or more of its products could be delayed. In addition, the Company could incur considerable costs to prosecute or defend proceedings in which the Company asserts its proprietary rights against third parties.

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 material adverse impact on TSO_3. The Board of Directors, Human Resources Committee and Management have reviewed in 2014 the Company's succession plan for all senior level management positions.

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, production capacity, and financing requirements.

Expansion Risk

The Company may expand its operations, depending on certain conditions, by acquiring additional businesses, products or technologies. There can be no assurance that the Company will be able to identify, acquire or profitably manage additional businesses, or successfully integrate any acquired business, products, or technologies into the business without substantial expenses, delays or other

operational or financial difficulties. There can be no assurance that acquired businesses, products or technologies, if any, will achieve anticipated revenues and income.

Competition Risks

The Company's products face intense competition. Most of the Company's competitors have greater financial resources and marketing capabilities than TSO_3 and, assuming that the Company succeeds in getting a new channel partner, several of the competitors may also have greater resources and capabilities that a new channel partner may make available to the 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 insurance coverage that it considers adequate and that it reviews annually with its insurance advisors.

Need for Additional Capital and Liquidity

The Company faces a number of challenges in its business, including the fact that it had limited commercial activities while it awaited market clearance in the United States, the largest potential market for its products, and that it still has one major product under development. This creates liquidity needs that must be funded through various rounds of investment capital. In order to reduce those cash requirements, the Company reduced its workforce during Q1-2014 and discontinued most product development efforts other than those related to the US regulatory clearance of its STERIZONE® VP4 Sterilizer then under review by the US Regulatory Authorities.

The ability by the Company to raise cash in order to maintain sufficient cash reserves to ensure continuation of activities may be adversely impacted by global political and economic conditions and by other risk factors identified in this MD&A. There can be no assurance that the Company will continue to be able to obtain on a timely basis sufficient funds to provide adequate liquidity and to finance the operating and capital expenditures necessary to overcome challenges and support its business strategy while its cash flows from operations are insufficient to support its operations. The Company anticipates that it will continue to have negative cash flow until such time, if at all, that profitable commercialization of its STERIZONE® 125L+ and STERIZONE® VP4 Sterilizers is achieved. To the extent that the Company has negative cash flow from operations in future periods, it may need to allocate a portion of its working capital to fund such negative cash flow.

Failure to obtain additional funds, whether from operations or additional debt or equity financings, could require the Company to delay or abandon some or all of its anticipated expenditures or to modify its business strategy and could have a material adverse effect on the Company, its business prospects, results from operations and financial condition, including on its ability to complete certain internal development and commercialization projects or complete its submissions with regulatory agencies.

Potential Dilution

Prior to the offering closed on March 5, 2015, the Company had outstanding options to purchase 3,769,535 common shares of the Company and no outstanding warrants to purchase common shares of the Company. Following the completion of the offering, there are 9,660,000 additional warrants issued and 9,014,000 outstanding as at September 30, 2015. The potential increase in the number of

outstanding common shares as a result of the exercise of options and warrants, and the sale of these shares, may have a depressive effect on the future price of the common shares of the Company. In addition, as a result of the exercise of options and warrants, the voting power of the Company's existing shareholders will be diluted. The Company may also issue additional options, common share purchase warrants or additional common shares from time to time in the future in order to fund its capital needs, if any. If it does so, the current ownership interest of the Company's then current shareholders could also be diluted.

Challenging Global Political and Economic Conditions

The general economic and business conditions around the world affect the Company's business prospects and the demand for its products in Canada, the United States, Europe and elsewhere in the world. Such conditions include short- and long-term interest rates, inflation, fluctuations in securities prices and capital markets, exchange rates, debt crisis periodically affecting certain countries, volatility in the financial markets throughout the world, the tightening of liquidity in selected financial markets, and the strength of the regional and international economies.

All of these factors affect the business and economic conditions in a given geographic region and, consequently, affect the demand for the products developed or being developed by the Company. Currency rate movements in the United States and other countries where the Company seeks to market or distribute its products may significantly impact the Company's business prospects and future earnings as a result of foreign currency conversion adjustments. The monetary policies of the Bank of Canada, the US Federal Reserve and the European monetary authorities as well as other interventionist measures in capital markets by public organizations are impacting economic conditions and therefore have consequences on the Company's business prospects.

The Company has no control over changes in inflation and interest rates, foreign currency exchange rates and controls or other economic factors affecting its business or the possibility of political unrest, legal and regulatory changes in jurisdictions in which the Company operates or intends to market its products.

Financial Instruments

The Company's risk exposure includes the risk incurred in connection with its investments in financial instruments, namely cash, cash equivalents and short-term investments. In order to manage the risk entailed by these financial instruments, controls have been implemented and, in particular, an investment policy was adopted and implemented. The Company considers that the return on short-term investments is secondary to risk minimization and primarily aims to optimize cash flows from a maturity perspective. With respect to investments, the main risk exposures are as follows:

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.

For the quarter ended September 30, 2015, if interest rates on that date had been 0.5% lower, and all other variables held constant, the consolidated net loss and comprehensive loss for the period would have been $2,941 lower (no impact for the year ended December 31, 2014), arising mainly as a result of an increase in the fair value of fixed rate financial assets classified at fair value through profit or loss. If the interest rates on that date had been 0.5% higher, all other variables being held constant, the consolidated net loss and comprehensive loss for the period would have been $2,923 higher (no impact for the year ended December 31, 2014), arising mainly as a result of a decrease in the fair value of fixed rate financial assets classified at fair value through profit or loss. The net loss and

comprehensive loss therefore have substantially the same sensitivity to interest rate increases and interest rate decreases.

Credit Risk

The use of financial instruments can create a credit risk entailing a risk of financial loss resulting from 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 receivables from clients, cash and cash equivalents and short-term investments.

Receivables from clients are from the sales and service provider and government-funded hospitals. By their size and their nature, the credit risk related to those receivables is reduced.

The Investment Policy established by the Company addresses management of credit risk exposures and permits investments in securities or instruments issued by, or guaranteed by, the Canadian federal or provincial governments, crown corporations as well as certain municipalities and financial institutions, provided that the issuer or guarantor benefits from a credit rating not less than A- on the rating scale of Standard and Poor's or the equivalent for other credit rating agencies. This policy sets limits to the size of exposures.

As at September 30, 2015 and 2014, the Company's short-term investments were rated by at least two recognized agencies and were within the credit ratings required by 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 at September 30, 2015 and 2014, there was no single investment that exceeded the limit required under the Company's Investment Policy.

Liquidity Risk

Liquidity risk represents the possibility that the Company may not be able to monetize its financial instruments so as to meet its 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 sufficient liquidity available on demand to meet current and future financial obligations, under both normal and exceptional circumstances.

Currency Risk

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

As at September 30, 2015, if the Canadian dollar had weakened 10 percent against the US dollar with all other variables held constant, the net loss and comprehensive loss for the period ended September 30, 2015 would have been $110,773 lower ($5,954 for the year ended December 31, 2014). 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 for the period ended September 30, 2015 would have been $110,773 higher ($5,954 for the year ended December 31, 2014).

Fair Value

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

Loss of Entire Investment

An investment in the shares of the Company is highly speculative and may result in the loss of an investor's entire investment. Only potential investors who are experienced in high risk investments and who can afford to lose their entire investment should consider an investment in the Company.

Volatility of Share Price

Market prices for securities in general tend to fluctuate. In addition to general securities market conditions, factors such as the announcement (to the public, at science conferences or otherwise) of scientific or technologic innovations, new products, patents, the obtaining of exclusive rights by the Company or other companies, a change in regulations, publications, quarterly financial results, public concerns, future sales of common shares by the Company or current shareholders, the realization of any of the risks described herein and many other factors could have considerable repercussions on the price of the Company's common shares.

Warrants not Listed for Trading

Because the Company did not apply to list on the TSX or on any other any securities exchange, there is no public market for the warrants isued by the Company on March 5, 2015. There can be no assurance that a secondary market for the warrants will develop or be sustained if such development occurs. Even if a market develops for the warrants, there can be no assurance that it will be liquid and that the price of the warrants will be the same as the price allocated for the warrants when offered to the investors.

Dividends

Until now, the Company has never paid any cash dividend on its common shares and it currently intends to retain its future earnings, if any, to fund the development growth of its business. In addition, the terms of any future debt or credit facility may prevent the Company from paying any dividend unless certain consents are obtained and/or certain conditions are met.

Other Risk Factors

Additional risks not currently known to the Company or that the Company currently deems immaterial may also impair the Company's operations.

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 Interim Chief Financial Officer ("Interim 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 Interim 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 Interim 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 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 Interim 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 2014. 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 interim 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 interim reporting for the interim period ended September 30, 2015.

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 September 30, 2015 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 and nine-month periods ended September 30, 2015 and 2014

Interim Condensed Consolidated Statements of Loss and Comprehensive Loss

(Unaudited)

Periods ended September 30, 2015 and 2014 (in Canadian $)

	Notes	THIRD QUARTER 2015 $	THIRD QUARTER 2014 $	NINE MONTHS 2015 $	NINE MONTHS 2014 $
Sales	17	**1,209,901**	98,545	**1,436,481**	312,481
Expenses	5				
Supply Chain		**879,886**	246,283	**1,409,362**	707,246
Marketing, Sale and Service		**254,841**	61,853	**635,655**	234,292
Research and Development		**713,663**	667,219	**1,905,461**	1,789,756
Administrative		**1,079,549**	570,656	**2,817,869**	1,968,929
Financial Income	4	**(33,974)**	(23,443)	**(94,836)**	(91,350)
Financial Costs	4	**(1,763)**	2,822	**11,453**	15,974
Total Expenses		**2,892,202**	1,525,390	**6,684,964**	4,624,847
Net Loss before Income Taxes		**(1,682,301)**	(1,426,845)	**(5,248,483)**	(4,312,366)
Income Taxes		**-**	-	**-**	-
Net Loss and comprehensive loss		**(1,682,301)**	(1,426,845)	**(5,248,483)**	(4,312,366)
Basic and Diluted Net Loss per Share	18	**(0.02)**	(0.02)	**(0.06)**	(0.06)

The accompanying notes are an integral part of these Interim Condensed Consolidated Financial Statements.

Interim Condensed Consolidated Statements of Changes in Equity

(Unaudited)
(in Canadian $)

	Notes	Share Capital $	Reserve-Share-Based Compen-sation $	Reserve – warrants $	Deficit $	Total $
Balance at January 1, 2014		104,028,949	3,967,687	77,000	(92,804,014)	15,269,622
Share-Based Compensation	13	-	91,020	-	-	91,020
Warrants Exercised	12, 14	394,975	-	(71,225)	-	323,750
Transfer to Deficit – Warrants Expired	14	-	-	(5,775)	5,775	-
Net Loss for the Period		-	-	-	(4,312,366)	(4,312,366)
Balance at September 30, 2014		104,423,924	4,058,707	-	(97,110,605)	11,372,026
Balance at October 1, 2014		104,423,924	4,058,707	-	(97,110,605)	11,372,026
Share-Based Compensation	13	-	80,625	-	-	80,625
Options Exercised	12	75,525	(33,525)	-	-	42,000
Net Loss for the Period		-	-	-	(1,635,623)	(1,635,623)
Balance at December 31, 2014		104,499,449	4,105,807	-	(98,746,228)	9,859,028
Balance at January 1, 2015		104,499,449	4,105,807	-	(98,746,228)	9,859,028
Issuance of Share Capital and Warrants	12, 14	10,883,600	-	616,400	-	11,500,000
Options Exercised	12	38,681	(16,115)	-	-	22,566
Warrants Exercised	12, 14	1,250,205		(38,955)	-	1,211,250
Share-Based Compensation	13	-	374,438	-	-	374,438
Warrants Issued to Underwriters	12, 14	(108,100)	-	108,100	-	-
Share Issue and Warrants Issue Expenses	12	(1,088,109)	-	(61,626)	-	(1,149,735)
Net Loss for the Period		-	-	-	(5,248,483)	(5,248,483)
Balance at September 30, 2015		115,475,726	4,464,130	623,919	(103,994,711)	16,569,064

The accompanying notes are an integral part of these Interim Condensed Consolidated Financial Statements.

Interim Condensed Consolidated Statements of Financial Position

(Unaudited)
(in Canadian $)

	Notes	September 30, 2015 $	December 31, 2014 $
Current Assets			
Cash and Cash Equivalents	6	**9,807,275**	5,973,446
Short-term Investments	6	**2,400,000**	-
Accounts Receivable	7	**1,504,484**	257,694
Inventories	8	**1,513,822**	1,293,503
Prepaid Expenses		**100,252**	102,294
		15,325,833	7,626,937
Non-current Assets			
Property, Plant and Equipment	9	**482,411**	557,515
Intangible Assets	10	**2,255,410**	2,432,653
		2,737,821	2,990,168
		18,063,654	10,617,105
Current Liabilities			
Accounts Payable and Accrued Liabilities		**1,414,732**	676,058
Warranty Provision	11	**40,000**	-
Deferred Revenues		**39,858**	82,019
		1,494,590	758,077
Equity			
Share Capital	12	**115,475,726**	104,499,449
Reserve – Share-based Compensation	13	**4,464,130**	4,105,807
Reserve – Warrants	14	**623,919**	-
Deficit		**(103,994,711)**	(98,746,228)
		16,569,064	9,859,028
		18,063,654	10,617,105

The accompanying notes are an integral part of these Interim Condensed Consolidated Financial Statements.

Interim Condensed Consolidated Statements of Cash Flows

(Unaudited)
Periods ended September 30, 2015 and 2014 (in Canadian $)

	Notes	NINE MONTHS 2015 $	2014 $
Cash Flows from Operating Activities			
Net Loss before Income Taxes		**(5,248,483)**	(4,312,366)
Adjustments for:			
Depreciation of Property, Plant and Equipment	9	**222,753**	316,025
Amortization of Intangible Assets	10	**156,212**	224,911
Write-off of Intangible Assets	10	**214,209**	-
Share-Based Compensation	13	**374,438**	91,020
Investment Income	4	**(93,812)**	(83,354)
		(4,374,683)	(3,763,764)
Changes in Non-Cash Operating Working Capital Items	16	**(761,063)**	789,754
Interest Received		**93,812**	90,004
Cash Flows Used in Operating Activities		**(5,041,934)**	(2,884,006)
Cash Flows from Investing Activities			
Acquisition of Short-term Investments		**(5,800,000)**	(4,503,044)
Disposal of Short-term Investments		**3,400,000**	5,942,792
Acquisition of Property, Plant and Equipment	9, 16	**(115,140)**	(20,206)
Acquisition of Intangible Assets	10	**(193,178)**	(74,078)
Cash Flows Generated by (Used in) Investing Activities		**(2,708,318)**	1,345,464
Cash Flows from Financing Activities			
Issuance of Share Capital and Warrants	12	**11,500,000**	-
Payment for Share and Warrants Issue Expenses	12	**(1,149,735)**	-
Options Exercised	12	**22,566**	-
Warrants Exercised	14	**1,211,250**	323,750
Cash Flows Generated by Financing Activities		**11,584,081**	323,750
Increase (Decrease) in Cash and Cash Equivalents		**3,833,829**	(1,214,792)
Cash and Cash Equivalents at the Beginning		**5,973,446**	6,637,408
Cash and Cash Equivalents at the End		**9,807,275**	5,422,616

The accompanying notes are an integral part of these Interim Condensed Consolidated Financial Statements.

Notes to the Interim Condensed Consolidated Financial Statements

(Unaudited)
Periods ended September 30, 2015 and 2014 (in Canadian $)

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

These 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 September 30, 2015 have been omitted or condensed. As such, these Financial Statements should be read in conjunction with the Company's 2014 annual Financial Statements.

Basis of Presentation

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

The principal accounting policies are set out hereafter.

Presentation Currency and Foreign Currency Translation

The Financial Statements are presented in Canadian dollars, the functional currency of the Company. The functional currency of the wholly-owned subsidiary located in the United States is the US dollars.

Foreign currency transactions of the Company are translated into Canadian dollars as follows: monetary assets and liabilities are translated at the exchange rates 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.

The wholly-owned subsidiary transactions are translated into Canadian dollars as follows: the assets and liabilities are translated at the exchange rates 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 differences are recorded in other comprehensive income and cumulated in a separate component of equity.

Notes to the Interim Condensed Consolidated Financial Statements

(Unaudited)
Periods ended September 30, 2015 and 2014 (in Canadian $)

2. Accounting Policies (cont'd)

Scope of Consolidation

The Financial Statements include the accounts of the Company and TSO_3 Corporation, its wholly-owned subsidiary. TSO_3 Corporation was created during the second quarter of 2015. Intercompany transactions, balances and unrealized gains or losses on transactions between group companies are eliminated.

A subsidiary is an entity over which the Company has control. Control exists when the Company has of the following elements: (1) the power over the activities of the subsidiary, (2) the exposure or rights to variable returns from its involvement with the subsidiary and (3) the ability to use its power over the subsidiary to affect the amount of the Company's returns. A subsidiary is fully consolidated from the date on which control is transferred to the Company. They are deconsolidated from the date that control ceases.

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.

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.

Share-Based Compensation

The Company uses the fair value method to measure compensation expense at the date of award 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 - Share-Based Compensation. 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 regularly and changes are recorded to net income. When options are exercised, the corresponding amount in the Reserve - Share-Based Compensation and the proceeds received by the Company are credited to share capital. The Stock option plan is an equity-settled plan.

Notes to the Interim Condensed Consolidated Financial Statements

(Unaudited)
Periods ended September 30, 2015 and 2014 (in Canadian $)

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 consolidated 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 materialization is considered probable.

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 reduction of the related expense.

Inventories

The cost of inventories is primarily determined using the first-in, first-out method. The specific identification of the individual cost is also used for inventories segregated for specific projects. In both cases, the cost of work in progress and finished goods includes the cost of raw materials and an applicable share of the cost of labor and manufacturing overhead based on normal production rates. Inventories are valued at the lower of cost and net realizable value.

A new assessment of net realizable value is performed 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 the following estimated useful lives taking into account any residual value:

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

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

Notes to the Interim Condensed Consolidated Financial Statements

(Unaudited)
Periods ended September 30, 2015 and 2014 (in Canadian $)

2. Accounting Policies (cont'd)

Intangible Assets

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

Acquired in a Business Combination	
Technology	20 years
Acquired Externally	
Patents	20 years
Licenses	9 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 the end of each fiscal year.

Impairment of Property, Plant and Equipment and Intangible Assets

At the end of each reporting period, assets are reviewed for indication of any impairment. When such indicators are identified, the Company is required to perform an impairment test in order to measure the asset's recoverable value and 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 is determined for the cash generating unit holding the asset.

The recoverable value is the higher of (1) an asset fair value less the cost to sell it and (2) its value in use. Value in use is the present value of estimated future cash flows discounted using a 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.

If the asset's (or a cash generating unit's) estimated recoverable value is lower than its carrying value, the asset (or the cash generating unit's) carrying value is reduced to its recoverable value. An impairment loss is immediately recognized in the Interim Condensed Consolidated Statements of Loss and Comprehensive Loss.

Where an impairment loss subsequently reverses, the carrying value of the asset is increased to the revised estimate of its recoverable value, but such reversal may not increase the carrying value in excess of the carrying value 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 Interim Condensed Consolidated Statements of Loss and Comprehensive Loss.

Notes to the Interim Condensed Consolidated Financial Statements

(Unaudited)
Periods ended September 30, 2015 and 2014 (in Canadian $)

2. Accounting Policies (cont'd)

Warranty Provision

The Company offers a standard 12-month warranty on capital 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.

Warrants

The Company uses the fair value method to measure the value of warrants at the award date. Fair value is determined using the Black-Scholes option pricing model and is recorded as part of the Reserve - Warrants. When warrants are exercised, the corresponding amount in the 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.

Classification, Recognition and Measurement of Financial Instruments

Financial instruments are classified in categories and their measurement in subsequent periods depends on their classification. The Company has classified its financial instruments as follows:

Category	Classification
Cash	Loans and Receivables
Cash Equivalents	Fair value through profit or loss
Short-term Investments	Fair value through profit or loss
Accounts Receivable	Loans and Receivables
Accounts Payable and Accrued Liabilities	Other Liabilities

Cash and Cash Equivalents

Cash and cash equivalents include cash and investments with maturities of three months or less from the date of acquisition. These investments are highly liquid and are held for the purpose of meeting short-term cash commitments. Cash is recorded at amortized cost and cash equivalents are recorded at fair value.

Short-term Investments

Short-term investments are instruments presented at fair value through profit or loss because they will be used for short-term cash commitments. These investments are recorded at fair value. Increases and decreases in fair value are recognized as investment income.

Notes to the Interim Condensed Consolidated Financial Statements

(Unaudited)
Periods ended September 30, 2015 and 2014 (in Canadian $)

2. Accounting Policies (cont'd)

Financial Instruments (cont'd)

Accounts Receivable

Accounts receivable are accounted for at amortized cost using the effective interest method.

Accounts payable and Accrued Liabilities

Accounts payable and accrued liabilities are accounted for at amortized cost using the effective interest method.

Transaction Costs

Transaction costs related to financial assets presented at fair value 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.

Fair Value

The fair value of a financial instrument is defined as the price that would be received to sell an asset or pay to transfer a liability in an orderly transaction between market participants at the measurement date.

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 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, 2014 were the following:

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

Notes to the Interim Condensed Consolidated Financial Statements

(Unaudited)
Periods ended September 30, 2015 and 2014 (in Canadian $)

2. Accounting Policies (cont'd)

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

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-rate, as well as the estimated number of options that will vest.

5. *Warrants Valuation:*

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

6. *Deferred Income Taxes:*

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

Notes to the Interim Condensed Consolidated Financial Statements

(Unaudited)
Periods ended September 30, 2015 and 2014 (in Canadian $)

2. Accounting Policies (cont'd)

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

7. Functional Currency:

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

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

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. For example, the amendments make clear that materiality applies to the whole of Financial Statements and that the inclusion of immaterial information can inhibit the usefulness of financial disclosures. Furthermore, the amendments clarify that companies should use professional judgment in determining where and in what order information is presented in the financial disclosures. The amendments to IAS 1 are effective for annual periods beginning on or after January 1, 2016. Early adoption is permitted. The Company is currently evaluating the impact of the modification of this standard on its Financial Statements.

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

(Unaudited)
Periods ended September 30, 2015 and 2014 (in Canadian $)

4. Financial Income and Costs

	THIRD QUARTER		NINE MONTHS	
	2015	2014	**2015**	2014
	$	$	**$**	$
Financial Income				
Investment Income	**(34,015)**	(23,443)	**(93,812)**	(83,354)
Other expense (income)	**41**	-	**(1,024)**	(7,996)
	(33,974)	(23,443)	**(94,836)**	(91,350)
Financial Costs				
Bank Charges	**7,180**	5,780	**33,832**	17,421
Foreign Exchange Loss (Gain)	**(8,943)**	(2,958)	**(22,379)**	(1,447)
	(1,763)	2,822	**11,453**	15,974

5. Additional Information on the Interim Condensed Consolidated Statements of Loss and Comprehensive Loss

	THIRD QUARTER		NINE MONTHS	
Expenses Included in Functions	**2015**	2014	**2015**	2014
	$	$	**$**	$
Salary and Other Benefits	**1,539,055**	842,096	**3,801,964**	3,007,431
Supply Chain				
Marketing, Sale and Service				
Research and Development				
Administrative				
Depreciation of Property, Plant and Equipment	**79,875**	105,340	**222,753**	316,025
Supply Chain				
Marketing, Sale and Service				
Research and Development				
Administrative				
Amortization of Intangible Assets	**54,175**	75,316	**156,212**	224,911
Supply Chain				
Marketing, Sale and Service				
Research and Development				
Administrative				

Notes to the Interim Condensed Consolidated Financial Statements

(Unaudited)
Periods ended September 30, 2015 and 2014 (in Canadian $)

5. Accounting Additional Information on the Interim Condensed Consolidated Statements of Loss and Comprehensive Loss (cont'd)

Severance expenses

During the third quarter of 2015, the Company has recorded severance expenses to some of its employees for a total amount of $400,598 (no severance payments for the same period in 2014).

For the nine-month period, the Company has recorded severance expenses to some of its employees for a total amount of $416,550 ($60,804 for the nine-month period ended September 30, 2014).

6. Financial Instruments

Cash and Cash Equivalents

	September 30, 2015 $	December 31, 2014 $
Cash	**2,650,783**	2,420,771
Investments with Maturities of Three Months or Less		
Interest-Bearing Bank Saving Account	**7,156,492**	3,552,675
	9,807,275	5,973,446

Short-term Investments

	September 30, 2015 $	December 31, 2014 $
Bank Guaranteed Investment Certificates	**2,400,000**	-

Short-term investments held as at September 30, 2015 had a rating of AA- or better and had average yield of 0.90%.

The Bank Guaranteed Investment Certificates and the Interest-Bearing Bank Saving Account 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 flow 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 September 30, 2015 (no transfer in 2014).

Notes to the Interim Condensed Consolidated Financial Statements

(Unaudited)
Periods ended September 30, 2015 and 2014 (in Canadian $)

6. Financial Instruments (cont'd)

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 short-term investments, controls have been implemented and, in particular, an investment policy was adopted and implemented. The Company considers that the return on short-term investments is secondary to risk minimization and primarily aims to optimize cash flows from a maturity perspective. With respect to investments, the main risk exposures are as follows:

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.

For the quarter ended September 30, 2015, if interest rates on that date had been 0.5% lower, and all other variables held constant, the net loss and comprehensive loss for the period would have been $2,941 lower (no impact for the year ended December 31, 2014), arising mainly as a result of an increase in the fair value of fixed rate financial assets classified at fair value through profit or loss. If the interest rates on that date had been 0.5% higher, all other variables being held constant, the net loss and comprehensive loss for the period would have been $2,923 higher (no impact for the year ended December 31, 2014), arising mainly as a result of a decrease in the fair value of fixed rate financial assets classified at fair value through profit or loss. The net loss and comprehensive loss therefore have substantially the same sensitivity to interest rate increases and interest rate decreases.

Credit Risk

The use of financial instruments can create a credit risk entailing a risk of financial loss resulting from 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 receivables from clients, cash and cash equivalents and short-term investments.

Receivables from clients are from the sales and service provider and government-funded hospitals. By their size and their nature, the credit risk related to those receivables is reduced.

The Investment Policy established by the Company addresses management of credit risk exposures and permits investments in securities or instruments issued by, or guaranteed by, the Canadian federal or provincial governments, crown corporations as well as certain municipalities and financial institutions, provided that the issuer or guarantor benefits from a credit rating not less than A- on the rating scale of Standard and Poor's or the equivalent for other credit rating agencies. This policy sets limits to the size of exposures.

Notes to the Interim Condensed Consolidated Financial Statements

(Unaudited)
Periods ended September 30, 2015 and 2014 (in Canadian $)

6. Financial Instruments (cont'd)

Credit Risk (cont'd)

As at September 30, 2015, the Company's short-term investments were rated by at least two recognized agencies and were within the credit ratings required by the Company's investment policy. As at December 31, 2014, the Company had no short-term investments.

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 at September 30, 2015 and December 31, 2014, there was no single investment that exceeded the limit required under the Company's Investment Policy.

Liquidity Risk

Liquidity risk represents the possibility that the Company may not be able to monetize its financial instruments so as to meet its 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 sufficient liquidity available on demand to meet current and future financial obligations, under both normal and exceptional circumstances.

Currency Risk

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

As at September 30, 2015, if the Canadian dollar had weakened 10 percent against the US dollar with all other variables held constant, the net loss and comprehensive loss for the period ended September 30, 2015 would have been $110,773 lower ($5,954 for the year ended December 31, 2014). 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 for the period ended September 30, 2015 would have been $110,773 higher ($5,954 for the year ended December 31, 2014).

7. Accounts Receivable

	September 30, 2015 $	December 31, 2014 $
Receivables from Clients	**1,192,323**	118,549
Government Credits Receivable	**312,161**	139,145
	1,504,484	257,694

As of September 30, 2015, an amount of $1,114,612 is receivable from one client (none as of December 31, 2014).

There were no bad debt allowances as at September 30, 2015 nor as at December 31, 2014.

Notes to the Interim Condensed Consolidated Financial Statements

(Unaudited)
Periods ended September 30, 2015 and 2014 (in Canadian $)

8. Inventories

	September 30, 2015 $	December 31, 2014 $
Raw Materials	**1,072,873**	918,993
Work in Progress	**322,399**	310,166
Finished Goods	**118,550**	64,344
	1,513,822	1,293,503

Supply Chain expenses included a write-off of raw materials of $3,610 for the third quarter of 2015 and $11,387 for the nine-month period ended September 30, 2015 ($1,728 for the quarter ended September 30, 2014 and $13,819 for the nine-month period ended September 30, 2014).

An amount of $16,489 of inventory was transferred to the Company's Property, Plant and Equipment as part of the Marketing and Demonstration Equipment during the third quarter of 2015 (no transfer during the third quarter of 2014). For the nine-month period ended September 30, 2015, an amount of $32,509 was transferred to the Marketing and Demonstration Equipment (no transfer during the nine-month period ended September 30, 2014).

9. Property, Plant and Equipment

	OFFICE FURNITURE $	LIFT TRUCK $	EQUIPMENT AND TOOLS $	STERILIZERS USED INTERNALLY $	MARKETING AND DEMONS-TRATION EQUIPMENT $	MEDICAL DEVICES $	COMPUTER EQUIPMENT $	LEASEHOLD IMPROVE-MENTS $	TOTAL $
Cost									
Balance at January 1, 2015	197,975	14,115	1,198,778	709,248	3,481	536,421	130,990	215,327	3,006,335
Additions	5,850	-	13,984	-	64,753	42,190	18,230	2,642	147,649
Balance at September 30, 2015	203,825	14,115	1,212,762	709,248	68,234	578,611	149,220	217,969	3,153,984
Accumulated Depreciation									
Balance at January 1, 2015	158,746	14,115	1,069,280	449,694	1,044	445,190	112,122	198,629	2,448,820
Depreciation	7,929	-	33,430	97,126	5,379	55,612	14,600	8,677	222,753
Balance at September 30, 2015	166,675	14,115	1,102,710	546,820	6,423	500,802	126,722	207,306	2,671,573
Net Carrying Amount at September 30, 2015	37,150	-	110,052	162,428	61,811	77,809	22,498	10,663	482,411

Notes to the Interim Condensed Consolidated Financial Statements

(Unaudited)
Periods ended September 30, 2015 and 2014 (in Canadian $)

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

	OFFICE FURNITURE $	LIFT TRUCK $	EQUIPMENT AND TOOLS $	STERILIZERS USED INTERNALLY $	MARKETING AND DEMONS-TRATION EQUIPMENT $	MEDICAL DEVICES $	COMPUTER EQUIPMENT $	LEASEHOLD IMPROVE-MENTS $	TOTAL $
Cost									
Balance at January 1, 2014	197,975	14,115	1,197,546	1,114,777	3,481	536,421	130,990	193,063	3,388,368
Additions	-	-	1,232	-	-	-	-	22,264	23,496
Write-off	-	-	-	(405,529)[1)]	-	-	-	-	(405,529)
Balance at December 31, 2014	197,975	14,115	1,198,778	709,248	3,481	536,421	130,990	215,327	3,006,335
Accumulated Depreciation									
Balance at January 1, 2014	147,579	14,115	993,425	569,130	348	342,914	79,695	193,063	2,340,269
Depreciation	11,167	-	75,855	194,205	696	102,276	32,427	5,566	422,192
Elimination on Write-off	-	-	-	(313,641)[1)]	-	-	-	-	(313,641)
Balance at December 31, 2014	158,746	14,115	1,069,280	449,694	1,044	445,190	112,122	198,629	2,448,820
Net Carrying amount at December 31, 2014	39,229	-	129,498	259,554	2,437	91,231	18,868	16,698	557,515

[1)] In 2014, the Company wrote-off sterilizers used internally with an original cost of $405,529. The accumulated depreciation of $313,641 is related to the written off assets. The net loss of $91,888 related to this write-off was recorded in the research and development expenses in the Interim Condensed Consolidated Statements of Loss and Comprehensive Loss.

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Notes to the Interim Condensed Consolidated Financial Statements

(Unaudited)
Periods ended September 30, 2015 and 2014 (in Canadian $)

10. Intangible Assets

	TECHNOLOGY $	PATENTS $	LICENSE $	SOFTWARE $	TRADEMARKS $	WEB SITE $	TOTAL $
Cost							
Balance at January 1, 2015	2,984,124	1,092,661	-	120,370	111,348	54,691	4,363,194
Additions	-	176,290	15,000	1,768	120	-	193,178
Write-off	-	(321,635)[1)]	-	-	-	-	(321,635)
Balance at September 30, 2015	2,984,124	947,316	15,000	122,138	111,468	54,691	4,234,737
Accumulated Amortization							
Balance at January 1, 2015	1,490,096	218,165	-	116,027	51,562	54,691	1,930,541
Amortization	111,905	32,216	625	3,603	7,863	-	156,212
Elimination on Write-off	-	(107,426)[1)]		-	-	-	(107,426)
Balance at September 30, 2015	1,602,001	142,955	625	119,630	59,425	54,691	1,979,327
Net Carrying Amount at September 30, 2015	1,382,123	804,361	14,375	2,508	52,043	-	2,255,410

[1)] In 2015, the Company wrote off patents with an original cost of $321,635, and eliminated an amount of $107,426 in corresponding accumulated amortization. The net write-off amount of $214,209 is reported as part of the Administrative expenses in the Interim Condensed Consolidated Statements of Loss and Comprehensive Loss.

Notes to the Interim Condensed Consolidated Financial Statements

(Unaudited)
Periods ended September 30, 2015 and 2014 (in Canadian $)

10. Intangible Assets (cont'd)

	TECHNOLOGY $	PATENTS $	SOFTWARE $	TRADEMARKS $	WEB SITE $	TOTAL $
Cost						
Balance at January 1, 2014 (restated)[2]	2,984,124	1,167,906	120,370	108,406	54,691	4,435,497
Additions	-	174,368	-	2,942	-	177,310
Write-off	-	(249,613)[1]	-	-	-	(249,613)
Balance at December 31, 2014	2,984,124	1,092,661	120,370	111,348	54,691	4,363,194
Accumulated Amortization						
Balance at January 1, 2014 (restated)[2]	1,340,889	244,796	97,803	41,227	54,691	1,779,406
Amortization	149,207	62,755	18,224	10,335	-	240,521
Elimination on Write-off	-	(89,386)[1]	-	-	-	(89,386)
Balance at December 31, 2014	1,490,096	218,165	116,027	51,562	54,691	1,930,541
Net Carrying Amount at December 31, 2014	1,494,028	874,496	4,343	59,786	-	2,432,653

[1] In 2014, the Company wrote off patents with an original cost of $249,613. The accumulated amortization of $89,386 related to this write-off was eliminated. The net amount of $160,227 was incorporated to administrative expenses in the Interim Condensed Consolidated Statements of Loss and Comprehensive Loss.

[2] During the fourth quarter 2014, the Company realized that the patent underlying the license expired in 2013. Because the license was amortized over a sixteen-year period instead of a nine-year period, the 2013 opening balance of accumulated amortization was corrected accordingly. Furthermore, the license was written off as at December 31, 2013. Therefore, the cost and accumulated amortization balances as at January 1, 2014 were decreased by $991,063.

11. Warranty Provision

	September 30, 2015 $	December 31, 2014 $
Balance at beginning	**-**	-
Additionnal provisions recognized during the period	**40,000**	-
Balance at the end	**40,000**	-

Notes to the Interim Condensed Consolidated Financial Statements

(Unaudited)
Periods ended September 30, 2015 and 2014 (in Canadian $)

12. Share Capital

Authorized:

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

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

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

Issued:

	September 30, 2015		December 31, 2014	
Issued and Paid	**Number of Common Shares**	**$**	Number of Common Shares	$
Balance at Beginning	**73,399,656**	**104,499,449**	73,000,906	104,028,949
New Issue	**9,200,000**	**9,687,391**	-	-
Options Exercised	**18,333**	**38,681**	75,000	75,525
Warrants Exercised	**646,000**	**1,250,205**	323,750	394,975
Balance at the End	**83,263,989**	**115,475,726**	73,399,656	104,499,449

On March 5, 2015, the Company closed a public equity issue of 9,200,000 units in the capital of the Company at the price of $1.25 per unit for aggregate gross proceeds of $11,500,000.

Each unit was comprised of one common share and one warrant entitling to acquire one common share at a price of $1.875 at any time prior to March 5, 2017. The warrants are 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 is equal or greater than $2.00 for any 10 consecutive trading days.

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 enables its holder to purchase one common share of the Company at the price of $1.25 until March 5, 2016. These compensation warrants had a fair value of $108,100 (Note 14).

Net cash proceeds from the issue were estimated at $10,350,265 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 their respective fair value estimated at $1.183 for each share issued and $0.067 for each issued warrant.

Notes to the Interim Condensed Consolidated Financial Statements

(Unaudited)
Periods ended September 30, 2015 and 2014 (in Canadian $)

12. Share Capital (cont'd)

During the third quarter ended September 30, 2015, pursuant to the Company's Stock Option Plan, no option was exercised by option holders. During the nine-month period ended September 30, 2015, option holders exercised stock options to subscribe 18,333 shares for an aggregate cash consideration of $22,566.

For the entire year ended December 31, 2014, holders exercised options to purchase 75,000 shares for an aggregate cash consideration of $42,000.

During the third quarter ended September 30, 2015, in connection with the exercise of warrants, the Company issued 646,000 common shares (323,750 for the year ended December 31, 2014) for a cash consideration of $1,211,250 ($323,750 for the year ended December 31, 2014).

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. TSO_3's shareholders ratified the Plan at the annual and special shareholders meeting held on May 6, 2015. 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. The plan expires, unless its renewal is ratified, at every third annual meeting of shareholders of the Company. Consequently, the plan will either expire or be ratified at the 2018 Annual Meeting.

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 has and will, as the case may be, 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) provide that 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.

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 agreement has no impact on the Financial Statements.

Notes to the Interim Condensed Consolidated Financial Statements

(Unaudited)
Periods ended September 30, 2015 and 2014 (in Canadian $)

12. Share Capital (cont'd)

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.

13. 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 8,185,000 as at September 30, 2015, (5,163,349 as at December 31, 2014). The options awarded pursuant to this plan generally vest over a three-year period and may be exercised within a maximum of 10 years from the date of award.

During the third quarter ended September 30, 2015, the Company awarded 355,000 stock options, (250,000 for the third quarter of 2014) at a weighted average exercise price of $1.95 ($0.85 for the third quarter of 2014). The weighted average fair value of these stock options was $0.96 ($0.45 for the third quarter of 2014).

For the nine-month period ended September 30, 2015, the Company awarded 1,300,000 stock options, (487,500 for the nine-month period ended September 30, 2014 and 637,500 for the year 2014) at a weighted average exercise price of $1.54 ($0.73 for the nine-month period ended September 30, 2014 and $0.92 for the year 2014). The weighted average fair value of these stock options was $0.76 ($0.39 for the nine-month period ended September 30, 2014 and $0.48 for the year 2014).

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 $150,614 for the third quarter of 2015 and $374,438 for the nine-month period ended September 30, 2015 ($29,934 for the third quarter of 2014 and $91,020 for the nine-month period ended September 30, 2014) presented in the Interim Condensed Consolidated Statements of Loss and Comprehensive loss in the functions based on the option holders.

Notes to the Interim Condensed Consolidated Financial Statements

(Unaudited)
Periods ended September 30, 2015 and 2014 (in Canadian $)

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

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

	September 30, 2015	December 31, 2014
Weighted Average Share Price	**$1.54**	$0.93
Exercise Price	**$1.54**	$0.92
Risk Free Interest Rate	**1.54%**	2.38%
Estimated Share Price Volatility	**44%**	46%
Expected Life	**8 years**	7 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 2015 and 2014 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.

	September 30, 2015		December 31, 2014	
	Number	**Weighted Average Exercise Price $**	Number	Weighted Average Exercise Price $
Outstanding at beginning	**3,369,535**	**0.97**	3,164,684	1.05
Granted	**1,300,000**	**1.54**	637,500	0.92
Exercised	**(18,333)**	**1.23**	(75,000)	0.56
Expired	**(48,467)**	**1.35**	(219,935)	1.73
Forfeited	**(206,667)**	**1.17**	(137,714)	1.65
Outstanding at end	**4,396,068**	**1.12**	3,369,535	0.97
Exercisable at end	**2,757,735**	**0.96**	2,552,868	0.95

Notes to the Interim Condensed Consolidated Financial Statements

(Unaudited)
Periods ended September 30, 2015 and 2014 (in Canadian $)

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

The following table summarizes certain information regarding the stock options of the Company as at September 30, 2015:

	OUTSTANDING OPTIONS		EXERCISABLE OPTIONS	
Exercise Price	Number	Average Remaining Contractual Life (year)	Number	Average Remaining Contractual Life (year)
$0.37 to $0.94	2,086,000	4.50	1,697,667	3.48
$1.08 to $1.97	2,113,100	4.59	863,100	5.99
$2.20 to $3.45	196,968	1.14	196,968	1.14
	4,396,068	4.39	2,757,735	4.10

The following table summarizes certain information regarding the stock options of the Company as at December 31, 2014:

	OUTSTANDING OPTIONS		EXERCISABLE OPTIONS	
Exercise Price	Number	Average Remaining Contractual Life (year)	Number	Average Remaining Contractual Life (year)
$0.37 to $0.94	2,096,000	5.27	1,581,833	3.97
$1.08 to $1.97	1,076,567	6.68	774,067	6.05
$2.20 to $3.45	196,968	1.89	196,968	1.89
	3,369,535	5.52	2,552,868	4.44

Notes to the Interim Condensed Consolidated Financial Statements

(Unaudited)
Periods ended September 30, 2015 and 2014 (in Canadian $)

14. Reserve – Warrants

	September 30, 2015		December 31, 2014	
	Number	**Weighted Average Exercise Price $**	Number	Weighted Average Exercise Price $
Outstanding at Beginning	**-**	**-**	350,000	1.00
Issued	**9,660,000**	**1,85**	-	-
Exercised	**(646,000)**	**1,88**	(323,750)	1.00
Expired	**-**	**-**	(26,250)	1.00
Outstanding at End	**9,014,000**	**1,84**	-	-
Exercisable at End	**9,014,000**	**1,84**	-	-

During the first quarter of 2015, 9,200,000 warrants were issued to purchasers of units in connection with the equity issue closed on March 5, 2015. These warrants allow their holders to purchase 9,200,000 shares at a price of $1.875 per share until their March 5, 2017 expiry provided that the Company has not prevailed itself of an option to accelerate the maturity of the warrants in the event that the Company's common share trade at a price in excess of $2.00 for 10 consecutive trading days after September 30, 2015. On March 5, 2015, the fair value of each of these warrants was $0.067, for an aggregate value of $616,400.

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 is exercisable to acquire one common share at the exercise price of $1.25 until March 5, 2016. On March 5, 2015, the fair value of each of these warrants was $0.235, for an aggregate value of $108,100.

During the third quarter of 2015, 646,000 warrants (323,750 for the third quarter of 2014) were exercised to purchase 646,000 shares (323,750 for the third quarter of 2014) at a price of $1.875 ($1.00 for the third quarter of 2014).

During the first quarter of 2013, 350,000 warrants were issued as part of the compensation to the underwriters in connection with the share issue closed on March 4, 2013.

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

Notes to the Interim Condensed Consolidated Financial Statements

(Unaudited)
Periods ended September 30, 2015 and 2014 (in Canadian $)

14. Reserve - Warrants (cont'd)

	September 30, 2015	December 31, 2014
Weighted Average Share Price	**$1.27**	**-**
Exercise Price	**$1.85**	**-**
Risk Free Interest Rate	**1.45%**	**-**
Estimated Share Price Volatility	**44%**	**-**
Expected Life	**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 26,250 warrants on September 4, 2014, the corresponding reserve of $5,775 was transferred to the Deficit.

15. Capital Management

The Company needs capital primarily to finance its sale and marketing activities, its production, its research and development, its supply chain, administrative and communication 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.

Notes to the Interim Condensed Consolidated Financial Statements

(Unaudited)
Periods ended September 30, 2015 and 2014 (in Canadian $)

16. Additional Information Relating to Cash Flows

	NINE MONTHS	
	2015	2014
	$	$
Change in Non-Cash Operating Working Capital Items		
Decrease (Increase) in Current Assets		
Accounts Receivable	**(1,246,790)**	640,930
Inventories	**(220,319)**	36,933
Prepaid Expenses	**2,042**	(30,165)
Increase (Decrease) in Current Liabilities		
Accounts Payable and Accrued Liabilities	**738,674**	162,826
Warranty provision	**40,000**	-
Deferred Revenues	**(42,161)**	(20,770)
	(728,554)	789,754
Non-Cash Items Transferred to Property, Plant and Equipment (Note 8)	**(32,509)**	-
	(761,063)	789,754
Research and Development Tax Credits		
Received	**30,622**	1,020,688

17. Segmented Information

The Company is structured as a single operating segment.

Almost all property, plant and equipment of the Company are located in Canada.

Sales are allocated between geographic areas based on the location of the client and are as follows for periods ended September 30, 2015 and 2014:

	THIRD QUARTER				NINE MONTHS			
		2015		2014		**2015**		2014
	$	**%**	**$**	**%**	**$**	**%**	$	%
Canada	**101,886**	**8**	90,570	92	**328,466**	**23**	238,788	76
Rest of the world	**1,108,015**	**92**	7,975	8	**1,108,015**	**77**	73,693	24
	1,209,901	**100**	98,545	100	**1,436,481**	**100**	312,481	100

Notes to the Interim Condensed Consolidated Financial Statements

(Unaudited)
Periods ended September 30, 2015 and 2014 (in Canadian $)

18. Loss per Share

The following table reconciles the basic and diluted loss per share for periods ended September 30:

	THIRD QUARTER		NINE MONTHS	
	2015	2014	**2015**	2014
	$	$	**$**	$
Net Loss				
Basic and Diluted	**(1,682,301)**	(1,426,845)	**(5,248,483)**	(4,312,366)
Number of Shares				
Weighted Average Number of Outstanding Shares	**82,916,519**	73,105,716	**81,406,817**	73,036,227
Loss per Share				
Basic	**(0.02)**	(0.02)	**(0.06)**	(0.06)
Diluted [1]	**(0.02)**	(0.02)	**(0.06)**	(0.06)

1) 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 potential exercise of options and warrants is antidilutive in the calculation of the diluted loss per share. If the Company had a positive profit, the weighted average number of outstanding shares would have been increased by 3,123,000 as of September 30, 2015 (1,673,500 as of September 30, 2014) for the calculation of the diluted net loss per share.

19. Contractual Commitments

As at September 30, 2015, the contractual commitments in the fiscal years to come are as follows:

	2016	2017	2018	2019	2020
	$	$	$	$	$
Operating leases and service contracts	222,000	104,000	84,000	82,000	55,000

20. Approval of Financial Statements

The Financial Statements were approved by the Board of Directors on November 3, 2015.