quarterly report

january february march

Q1 2007

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Message from the Chief Executive Officer

Dear Shareholders:

During the first quarter of 2007, we broadened our shareholder base and obtained major financing. We presented our Company for the first time on European and American stock markets.

On March 8, 2007, we successfully completed a public offering with the sale of units to a syndicate of underwriters led by Canaccord Adams, for total gross proceeds of $23 million. Each unit is comprised of one common share and one-half of one common share purchase warrant.

This financing will allow us to increase our sales force and also advance research and development activities in order to accelerate the development of new products already underway. Therefore, we want to double the members of our sales force by the end of this year ensuring wider and more significant coverage of the North American market. This major investment is necessary and has the goal of accelerating the commercialization of the *125L* Ozone Sterilizer.

We regularly participate in health industry conventions. For example, at the annual convention of the Association of PeriOperative Registered Nurses (AORN), held last March, our new sales and marketing team identified potential customers seriously interested in our device which confirms the continuing interest in our technology. We are currently qualifying the potential of these clients to determine which ones are the most likely to acquire our *125L* Ozone Sterilizer. These rewarding contacts mean more potential sales in the pipeline for 2007 and 2008. The analysis of the pipeline has reassured us that that the first results of our sales efforts will materialize over the coming months, and that we will achieve the objectives of our 2007 business plan.

During the first quarter of 2007, we also received new compatibility endorsements from several medical instrument manufacturers. These endorsements proved that reusable medical instruments can be sterilized repeatedly and safely in the *125L* Ozone Sterilizer. Our instrument validation program continues to evolve and grow, as does the number of manufacturers collaborating with us.

Our intention is to put more and more units in operation, functioning on a regular basis, and we have the necessary elements in place to do so. Our sales force can now count on numerous satisfied users who are ready to provide good references to future purchasers. This positioning, in accord with our strategy, will ensure optimal market penetration of the *125L* Ozone Sterilizer in hospital settings.

Jocelyn Vézina
Chief Executive Officer

Analysis of Financial Situation and Operating Results

The following information must be read in conjunction with the audited financial statements and accompanying notes.

OVERVIEW

Founded in June 1998, the Company has developed a unique new sterilization process that uses ozone as the sterilizing agent. The first device resulting from this technological platform, the *125L* Ozone Sterilizer, was designed to sterilize the new generation of surgical and diagnostic instruments made of heat-sensitive polymers. After receiving approval from Health Canada on May 3, 2002, the Company obtained clearance from the United States Food and Drug Administration (FDA) to sell the *125L* Ozone Sterilizer and the accompanying Chemical Indicator on September 3, 2003. On August 3, 2006, the FDA authorized the utilization of the *125L* Ozone Sterilizer for sterilizing a significantly broader range of lumened instruments that are longer and with smaller interior diameters.

INTERNAL SALES FORCE

The Company has redefined its commercial sales strategy and hired its own sales force. This sales and marketing department was strengthened significantly between March 31, 2006 and March 31, 2007. Over the last five quarters, the Company hired several sales managers. The sales and marketing team counted 23 employees at the end of the period. This team can benefit from the contribution of sales professionals who have extensive experience in capital equipment sales to both operating rooms and central sterilization departments in hospitals.

SUMMARY OF OPERATING RESULTS
Periods ended March 31 (unaudited)

	FIRST QUARTER	
	2007	2006
SALES	**$ 198,623**	$ 301,349
EXPENSES		
Operating	**322,034**	498,476
Marketing	**898,229**	715,722
Research & development	**416,730**	458,129
Administrative	**801,887**	867,081
Financial	**3,371**	3,367
	2,442,251	2,542,775
OPERATING LOSS	**2,243,628**	2,241,426
OTHER REVENUES	**174,492**	236,063
NET LOSS	**$ 2 069,136**	$ 2,005,363
NET LOSS PER SHARE BASIC & DILUTED	**$ 0.05**	$ 0.05
Weighted Average Number of Shares Outstanding	**39 386 158**	36 451 729

OPERATING RESULTS

Quarter ended March 31, 2007, compared with the same quarter ended March 31, 2006.

Sales

Sales for the first quarter ended March 31, 2007, amounted to $198,623 compared to $301,349 for the same period in 2006. The Company recorded the sale of one *125L* Ozone Sterilizer and accessories during the first quarter of 2007, compared to three sales and accessories for the same period in 2006.

Operating

Operating expenses were $322,034 for the three-month period ending March 31, 2007, compared to $498,476 for the same period in 2006. Operating expenses are related to the Production and After-Sales Service Department operations as well as the cost of manufacturing the device. The variance between the two periods is explained by a decrease in the cost of sold merchandise, raw materials, salaries and warranty fees.

Marketing

Marketing expenses amounted to $898,229 for the three-month period ended March 31, 2007 compared to $715,722 for the same period in 2006. The difference between the two periods is explained by an increase in salaries, fringe benefits, and sales-related expenses. On the other hand, costs related to referral sites, bonuses and commissions decreased between the two periods.

Research & Development Activities

For the three-month period ended March 31, 2007, R&D expenses before tax credits amounted to $416,730 compared to $458,129 for the same period in 2006. The decline between these two periods is explained by a reduction in salaries, fringe benefits, material purchases as well as a decrease in professional fees. Conversely, the amount paid for research on prions increased between the two periods.

Administration

Administration expenses amounted to $801,887 for the three-month period ended March 31, 2007 compared to $867,081 for the same period in 2006. The difference is mainly attributed to a decrease in management bonuses, professional fees, and fees related to the hiring process. On the other hand, an increase in Stock-based Compensation occurred between the two periods.

OPERATING RESULTS (cont'd)

Other Revenues

For the three-month period ended March 31, 2007, the Company realized revenues of $174,492 compared to $236,063 for the same period in 2006. The difference is explained by a decrease in investment revenues, in R&D income tax credits. On the other hand, government grants increased between the two periods.

Net Loss

The Company recorded a net loss of $2,069,136 or $0.05 per share for the first quarter of 2007, compared to a net loss of $2,005,363, also $0.05 per share, for the same period in 2006.

SELECTED ELEMENTS

	MARCH 31		DECEMBER 31		
	2007	2006	2006	2005	2004
Cash & Temporary Investment	**$27,626,745**	$12,797,530	$ 7,308,782	$14,595,003	$10,678,563
Accounts Receivable	**$ 634,122**	$ 471,208	$ 811,000	$ 344,302	$ 332,331
Inventories	**$ 3,139,718**	$ 3,177,395	$ 3,387,837	$ 3,303,258	$ 2,845,586
Deferred Revenues	**$ 69,163**	$ 778,717	$ 75,709	$ 961,826	$ 36,060
Assets	**$35,757,237**	$20,757,737	$15,743,739	$22,587,034	$18,310,919

Liquid Assets and Financial Situation

As of March 31, 2007, cash and temporary investments amounted to $27,626,745 and accounts receivable amounted to $634,122, for a total amount of $28,260,867 compared to $13,268,738 as of March 31, 2006.

Inventories

As of March 31, 2007, short term assets showed inventory valued at $3,139,718 compared to a total amount of $3,177,395 for the same period in 2006. These amounts were attributable to the cost of producing sterilizers for the commercialization process, as well as different trials performed in hospitals.

Deferred Revenues

Deferred revenues as of March 31, 2007, amounted to $69,163 compared to $778,717 for the same period in 2006. The deferred revenues reflect amounts received for a certain number of sterilizers that were delivered but for which the ownerships had not been transferred. It also includes parts, warranties and service contracts that had been paid in advance. As of March 31, 2007, deferred revenues do not include any device for which the ownership has not yet been transferred.

REQUIRED CAPITAL PAYMENTS AND CONTRACTUAL COMMITMENTS

Required capital payments and the various contractual commitments in the coming fiscal years are as follows:

	2007	2008	2009
Rent	**$ 19,196**	$ 19,632	$ 3,590
Referral and Pilot Sites	**106,184**	-	-
R&D Contract	**116,451**	-	-
TOTAL	**$241,831**	$ 19,632	$ 3,590

SUMMARY OF QUARTERLY RESULTS

	2007	2006				2005			
($000 except loss/share)	**Q1**	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Sales	**199**	434	34	301	301	11	161	-	-
Other Revenues	**174**	242	150	443	236	197	157	75	101
Net Loss	**2,069**	1,967	2,013	1,492	2,005	1,835	1,401	1,637	1,562
Net Loss per share (basic and diluted)	**0.05**	0.05	0.06	0.04	0.05	0.05	0.04	0.05	0.05

This figure shows the quarterly evolution of sales and other income as well as losses. The item *Net Loss per Share* has been relatively stable and constant for the past nine quarters.

CAPITAL RESOURCES

Historically, the Company has funded its activities from several rounds of public and private financing, as well as from various government subsidies. Since its inception in June 1998, the Company has raised $70,000,000 from the sale of its equity.

For the quarter ended March 31, 2007, the monthly burn-rate was approximately $430,000 due to the collection of accounts receivables and a decrease in inventories. The Company anticipates that its monthly burn-rate could increase slightly during the upcoming months due to an increase in expenses related to the commercialization of the *125L* Ozone Sterilizer and then decrease as sales accelerate.

CAPITAL RESOURCES (cont'd)

On March 8, 2007, the Company closed a placement of $23,000,000 from the sale of 9,200,000 units. Each unit is composed of one common share and one-half warrant. Each of the 4,600,000 whole warrants entitles its holder to purchase one additional common share of the Company at a price of $3.00 at any time until March 8, 2009.

Also, as additional consideration for services rendered for the issuance of these units, The Company granted 460,000 warrants to the underwriters. Each warrant can be subscribed to one common share of the Company at a price of $2.50 each before September 8, 2009.

On July 7, 2005, the Company closed a private placement of $10,000,000 from the sale of 5,000,000 units. Each unit is composed of one common share and one-half warrant. Each of the 2,500,000 whole warrants entitles the holder to purchase one additional common share of the Company at a price of $2.50 at any time until July 7, 2007. As of March 31, 2007, 2,399,850 warrants were outstanding representing potential additional funds for the Company of $5,999,625.

The Company has a line of credit with which it can obtain advances up to a maximum of $350,000. Amounts drawn on this line of credit, renewable on an annual basis, bear interest at the prime rate plus 1.0%. The Company's accounts receivable and inventories are pledged as security against this line of credit, and the Company must satisfy certain financial ratios commonly found in this type of loan. This line of credit had not been used as of March 31, 2007.

The Company has entered into a non-refundable financial contribution agreement with *IQ Immigrants Investisseurs Inc.* Under this agreement and upon reaching specific objectives, the Company may receive a contribution totalling $1,000,000. This contribution is payable in four annual instalments of $250,000 beginning in 2002. The Company received the first three instalments in 2002, 2003 and 2006, totalling $750,000. The Company expects the last instalment during the second quarter of 2007.

As of March 31, 2007 the number of outstanding shares was 46,232,102.

OFF-BALANCE SHEET TRANSACTION

The Company made no off-balance sheet transaction.

TRANSACTIONS WITH RELATED PARTIES

The Company leases its premises from a company owned by certain of the Company's shareholders.

Over the first quarter of 2007 and 2006 and the last two complete fiscal years, the Company has made the following related transactions, assessed at fair market value:

TRANSACTIONS WITH RELATED PARTIES (cont'd)

	MARCH 31		DECEMBER 31	
	2007	2006	2006	2005
Rent	**$ 14,841**	$ 14,451	$ 57,804	$ 56,560
Other Rent-Related Expenses	**34,161**	38,363	76,431	73,462
	$ 49,002	$ 52,814	$ 134,235	$ 130 ,022

As of March 31, 2007, an amount of $2,819 ($5,333 in 2006) was included in accounts payable related to a related party.

ACCOUNTING POLICY MODIFICATIONS

Impact of adopting financial instruments

On January 2007, the Company adopted the new accounting standards issued by CICA regarding Financial Instruments (Section 3855) and Comprehensive Income (section 1530). Information released prior to January 1, 2007 was not restated.

In January 2007, the Company made the following adjustments in order to conform to the new accounting standards:

	MARCH 31	
	2007	2006
Increase (decrease)		
Balance Sheets		
Temporary investments	**$ 20 216**	-
Statement of Deficit		
Accounting changes	**$(20 216)**	-

Other comprehensive income

According to the new CICA accounting standards, the Company must present a comprehensive income statement. Since the Company has classified all of its financial instruments as financial instruments *Held for Trading*, there is no element to be disclosed distinctively in other comprehensive income. Consequently, the net earnings (net loss) also represents the results of the comprehensive income.

CRITICAL ACCOUNTING POLICIES

The Company financial statements are prepared in accordance with Generally Accepted Accounting Principles in Canada ("G.A.A.P."). The Company's critical accounting policies include the use of estimates, revenue recognition, the recording of research and development expenses and the determination of the useful lives or fair value of goodwill and intangible assets. Some of our critical accounting policies require the use of judgment in their application or require estimates of inherently uncertain matters.

These policies, we believe are critical and require the use of complex judgment in their application.

Use of estimates

The preparation of financial statements, in accordance with Canadian generally accepted accounting principles, requires management to make estimates and assumptions that affect the recorded amounts of assets and liabilities, the disclosure of contingent assets and liabilities as of the date of the financial statements and the disclosure of contingencies at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Since the process for presenting financial information presupposes the use of estimates, actual results could differ from the information presented.

Financial instruments – Evaluation and recognition

Short term investments

Short term investments are classified as financial instruments Held for Trading. As such, these financial instruments are recorded at their fair values. Changes in the fair value of Held for Trading instruments are recorded as investment income and disclosed as Other Revenues in the income statement.

The fair value of financial instruments represents the amount at which the financial instruments could be traded knowingly and voluntarily between the parties involved. The fair value is based on market prices (buyer-seller prices) in an active market. If this is not the case, the fair value is based on market prices prevailing for instruments with similar risk profiles or characteristics or on internal or external valuation models that use observable market data.

Derivative financial instruments must be recorded at fair value unless they are specifically designated in an effective hedging relationship, and the change in fair value will be recorded directly in net earnings.

Intangible assets

Intangible assets consist of the acquisition cost of a patent license, the acquisition cost of a technology including all related rights, patent and trademark costs.

CRITICAL ACCOUNTING POLICIES (cont'd)

Intangible assets (cont'd)

Amortization of intangible assets is calculated using the straight-line method over the useful lives of the patents, licence or trademarks, according to the following:

Patents	20 years
Licence	16 years
Trademarks	10 and 15 years

Long-lived assets are tested for recoverability whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. An impairment loss is recognized when their carrying value exceeds the total undiscounted cash flows expected from their use and eventual disposition. The amount of the impairment loss is determined as the excess of the carrying value of the asset over its fair value.

Amortization expenses of $55,752, related to intangible assets, were recorded in the first quarter of 2007 compared to $54,579 for the same period in 2006.

LIQUIDITIES AND FINANCIAL RESOURCES

Management believes that it will be able to raise the necessary long-term capital to achieve corporate objectives. However, the availability of these financial resources cannot be guaranteed.

VOLATILITY OF SHARE PRICE

Company share prices are subject to volatility. Financial and scientific results that differ from analysts' projections may lead to significant variations in the price of Company shares.

FINANCIAL INSTRUMENTS

Foreign Exchange Risk

For the first quarter of 2007, approximately 87% of the Company's sales were in U.S. dollars compared to 68% in 2006, and it is therefore exposed to foreign currency fluctuations. This risk is partly offset by purchases and operating expenses in U.S. dollars.

SEGMENTED INFORMATION

Operating revenues according to geographic area are as follows:

	March 31	
	2007	2006
Canada	**$ 26,499**	$ 97,434
United States	**172,124**	203,915
	$ 198,623	$ 301,349

RISK FACTORS

Risks related to Operating Activities

The Company's activities entail certain risks and uncertainties inherent in the industry in which it operates.

Risks Associated with International Operations

TSO_3 must carry out the majority of its sales outside of Quebec and Canada, either in the United States or in Europe. The necessity to market on an international scale will put the Company in a position of direct competition with firms that possess networks and resources greater than its own. Nothing can guarantee that the marketing campaigns planned by the Company for international markets, alone or with strategic alliances, will be successful. The operations of TSO_3 at an international level could be affected negatively by factors such as the policies of Canada and the United States in regard to foreign trade, investments and taxes, foreign exchange rate controls and fluctuations, political instability and increased payment periods. One or more of these factors could have a significantly negative effect on the financial situation and results of the Company.

Compatibility, Biocompatibility and Research and Development Projects

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

RISK FACTORS (cont'd)

Dependency on Key Personnel

TSO_3 believes that its success will continue to depend on its ability to attract and retain qualified managers and other key personnel. Losing a key employee could have a major negative impact on TSO_3.

Management 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, cash flow and operating capacity.

Intellectual Property and Counterfeiting Risks

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

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's technology. To address the problems associated with such lawsuits, the Company is of the opinion that it has the necessary insurance coverage.

PROSPECTIVE STATEMENT

This document contains certain prospective statements that reflect the Company's current expectations concerning future activities. These prospective statements include risks and uncertainties. Actual results can differ considerably from the results, as previously described in this report, expected by the Company. Investors are advised to consult the Company's quarterly and annual reports, as well as the filing of the Company's annual information form for more details on the risks and uncertainties related to these prospective statements. The reader must not unduly rely upon the Company's prospective statements. The Company is not obliged to update these prospective statements.

This Management Report has been prepared as of April 24, 2007. Additional information on the Company is available through regular filing of press releases, annual reports, quarterly financial statements and the Annual Information Form on the SEDAR website (www.sedar.com).

EXAMINATION OF THE FINANCIAL STATEMENTS

The Quarterly Financial Statements have not been audited by the External Controller.

Marc Boisjoli, M.Sc.
Vice President, Finances and Chief
Financial Officer

April 24, 2007

Quarterly Financial Statements

The Quarterly Financial Statements have not been reviewed by External Auditors

Balance Sheet

as of

		MARCH 31 2007 (unaudited)		DECEMBER 31 2006 (audited)		MARCH 31 2006 (unaudited)
CURRENT ASSETS						
Cash	**$**	**1,450,462**	$	753,885	$	717,377
Temporary Investments		**26,176,283**		6,554,897		12,080,153
Account receivable		**634,122**		811,119		471,208
Inventories		**3,139,718**		3,387,837		3,177,395
Prepaid Expenses		**133,779**		133,651		108,889
		31,534,364		11,641,389		16,555,022
PROPERTY, PLANT AND EQUIPMENT		**536,832**		390,608		404,475
INTANGIBLE ASSETS		**3,686,041**		3,711,742		3,798,240
	$	**35,757,237**	$	13,743,739	$	20,757,737
CURRENT LIABILITIES						
Accounts Payable and Accrued Liabilities	**$**	**1,362,372**	$	1,043,700	$	1,024,748
Deferred Revenues		**69,163**		73,709		778,717
		1,431,535		1,119,409		1,803,465
SHAREHOLDERS' EQUITY						
Share Capital		**68,089,498**		47,149,127		46,356,460
Contributed Surplus		**8,013,643**		4,999,850		4,650,379
Deficit		**(41,777,439)**		(37,524,647)		(32,052,567)
		34,325,702		14,624,330		18,954,272
	$	**35,757,237**	$	15,743,739	$	20,757,737

Statements of Earnings

Periods ended March 31 (unaudited)

		FIRST QUARTER		
		2007		2006
SALES	**$**	**198,623**	$	301,349
EXPENSES				
Operating		**322,034**		498,476
Marketing		**898,229**		715,722
Research & development		**416,730**		458,129
Administrative		**801,887**		867,081
Financial		**3,371**		3,367
		2,443,251		2,542,775
OPERATING LOSS		**2,242,628**		2,241,426
OTHER REVENUES		**174,492**		236,063
NET LOSS	**$**	**2,069,136**	$	2,005,363

Earnings per share

		FIRST QUARTER		
		2007		2006
BASIC AND DILUTED NET LOSS PER SHARE	**$**	**2,069,136**	$	2,005,363
NUMBER OF SHARES				
Weighted average number of outstanding shares (1)		**39,386,158**		36,451,729
LOSS PER SHARE				
Basic	**$**	**0.05**	$	0.05
Diluted (1)	**$**	**0.05**	$	0.05

(1) The calculation of the weighted average number of outstanding shares is determines as a function of the number of outstanding common shares based on the fraction of the period during which the shares were outstanding.

The weighted average number of outstanding shares is the same number used in the calculation of the diluted net loss per share since including potential common shares in the computation of the diluted per share amount of a loss is always anti-dilutive.

Statements of Contributed Surplus

Periods ended March 31 (unaudited)

	FIRST QUARTER 2007	2006
Balance, Beginning of Period	**$ 4,999,850**	$ 4,620,592
Warrants exercised	**(13,887)**	-
Options exerciced	**(234,246)**	(86,006)
Share issue expenses	**2,819,051**	-
Compensation options	**281,520**	-
Stock-based compensation	**161,355**	115,793
Balance, End of Period	**$ 8,013,643**	$ 4,650,379

Statements of Deficit

Periods ended March 31 (unaudited)

	FIRST QUARTER 2007	2006
Balance, Beginning of Period	**$ 37,524,647**	$ 30,047,204
Accounting Changes (Note 2)	**(20,216)**	-
Restated Deficit	**37,504,431**	30,047,204
Share issue expenses	**1,922,352**	-
Compensation options	**281,520**	-
Net Loss	**2,069,136**	2,005,363
Balance, End of Period	**$ 41,777,439**	$ 32,052,567

Statements of Cash Flows

Periods ended March 31 (undaudited)

	FIRST QUARTER **2007**	2006
OPERATING ACTIVITIES		
Net loss	**$ (2,069,136)**	$ (2,005,363)
Adustments for :		
Amortization of property, plant and equipment	**33,255**	31,028
Amortization of intangible assets	**55,752**	54,579
Stock-based compensation	**161,355**	115,793
	(1,818,774)	(1,803,963)
Changes in non-cash operating working capital items	**737,113**	(187,890)
Cash flows used in operating activities	**(1,081,661)**	(1,991,853)
INVESTING ACTIVITIES		
Acquisition of temporary investments	**-**	(1,046,660)
Disposal of temporary investments	**-**	4,073,277
Acquisition of property, plant and equipment	**(179,479)**	(19,176)
Acquisition of intangible assets	**(30,051)**	(20,569)
Cash flows from (used in) investing activities	**(209,530)**	2,986,872
FINANCING ACTIVITIES		
Exercised options	**22,265**	6,475
Exercised warrants	**488,725**	227,650
Share issue expenses	**(1,922,352)**	-
Share issue	**23,000,000**	-
Cash flows from (used in) investing activities	**21,588,938**	234,125
INCREASE IN CASH AND CASH EQUIVALENTS	**20,297,747**	1,229,144
CASH AND CASH EQUIVALENTS AT BEGINNING	**7,328,998**	7,296,635
CASH AND CASH EQUIVALENTS AT END	**$ 27,626,745**	$ 8,525,779
Comprised of:		
Cash	**1,450,462**	717,377
Temporary investments less than three months	**26,176,283**	7,808,902
	27,626,745	8,525,779
Temporary investments more than three months	**-**	4,271,751
CASH AND TEMPORARY INVESTMENTS	**$ 27,626,745**	$ 12,797,530

The notes are an integral part of the financial statements.

1. The unaudited financial statements are prepared in accordance with Canadian generally accepted accounting principles for interim financial statements and do not include all the information required for complete financial statements. Interim results may not necessarily be indicative of results anticipated for the entire year. Moreover, they do not include all the information presented in the annual financial statements. The unaudited financial statements are consistent with the policies outlined in the Company's audited financial statements for the year ended December 31, 2006. The interim financial statements and related notes should be read in conjunction with the Company's audited financial statements for the year ended December 31, 2006.

Certain of the prior periods comparative amounts have been reclassified to conform to the current period.

2. Accounting policies

Accounting policies modification

Impact of adopting financial instruments

On January 2007, the Company adopted the new standards issued by CICA regarding Financial Instruments (Section 3855) and Comprehensive Income (section 1530). Information preceeding January 1, 2007 were not restated.

On January 1, 2007, the Company did the following adjustments to be conformed to the new standards:

	MARCH 31	
	2007	2006
Increase (decrease)		
Balance Sheets		
Temporary investments	**$ 20 216**	-
Statement of Deficit		
Accounting changes	**$ (20 216)**	-

Other comprehensive income

According to the new CICA accounting standards, the Company must present a comprehensive income statement. Since the Company has classified all of its financial instruments as financial instruments Held for Trading, there is no element to be disclosed distinctively in other comprehensive income. Consequently, the net earnings (net loss) also represents the results of the comprehensive income.

2. Accounting policies (cont'd)

Financial Instruments – Evaluation and Recognition

Short term investments

Short term investments are classified as financial instruments *Held for Trading*. As such, these financial instruments are recorded at their fair values. Changes in the fair value of *Held for Trading* instruments are recorded as investment income and disclosed as *Other Revenues* in the income statement.

The fair value of financial instruments represents the amount at which the financial instruments could be traded knowingly and voluntarily between the parties involved. The fair value is based on market prices (buyer-seller prices) in an active market. If this is not the case, the fair value is based on market prices prevailing for instruments with similar risk profiles or characteristics or on internal or external valuation models that use observable market data.

Derivative financial instruments must be recorded at fair value unless they are specifically designated in an effective hedging relationship, and the change in fair value will be recorded directly in net earnings.

Intangible assets

Intangible assets consist of the acquisition cost of a patent license, the acquisition cost of a technology including all related rights, patent and trademark costs.

Amortization of intangible assets is calculated using the straight-line method over the useful lives, of the patents, licence or trademarks, according to the following:

Patents	20 years
Licence	16 years
Trademarks	10 and 15 years

The technology is amortized using the straight-line method over the useful life of 20 years.

Long-lived assets are reviewed for impairment upon the occurrence of events or changes in circumstances indicating that the carrying value of the assets may not be recoverable. Impairment is recognized when the carrying amount of a long-lived asset exceeds the undiscounted cash flows expected to result from its use and disposal. The recognized impairment is measured as the excess of the carrying amount over its fair value.

Foreign currency translation

Foreign currency transactions are translated into Canadian Dollars as follows: monetary assets and liabilities are translated at the exchange rates in effect at the balance sheet date, and revenues and expenses are translated at the exchange rates in effect at the time of the transaction. Non-Monetary assets and liabilities are translated at historical rates. The gains or losses resulting from translation are carried to earnings.

Revenue Recognition

The Company generates revenue mainly from the sale of ozone sterilization units, parts and instruments related to these units and contracts for the support and maintenance of these units. The Company is generally committed under revenue arrangements with multiple deliverables that include delivery of units, installation, maintenance, and consulting and after-sale 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.

Revenue from revenue arrangements with multiple deliverables are divided into separate units of accounting when the Company has reliable evidence. When revenue cannot be determined, it is deferred and calculated using the straight-line method over the term of the contract. Revenue related to units sold, parts and instruments related to those units, installation and consulting services are recognized once the services are provided and the client accepts the services received. Maintenance and support contracts are calculated using the straight-line method over the term of the contract.

3. Share Capital

Issued	**MARCH 31 2007**	DECEMBER 31 2006
46,232,102 common shares	**$68,089,498**	$47,149,127

On March 8, 2007, the Company closed a private placement of $23,000,000 from the sale of 9,200,000 units. Each unit is composed of one common share and one-half warrant. Each of the 4,600,000 whole warrant entitles its holder to purchase one additional common share of the Company at a price of $3.00 at any time until March 8, 2009. The proceeds from this issuance of units was divided proportionally between capital assets and contributed surplus using the respective fair values of the shares and the warrants issued.

The Company, as additional consideration for services rendered for the issuance of these units, granted 460 000 warrants to the underwriters. Each warrant can be subscribed to one common share of the Company at a price of $2.50 each before September 8, 2009.

3. Share Capital (cont'd)

Stock options and Warrants

As of February 27, 2007, the Company has granted 183,500 stock options to certain employees and managers. These options, which vests over 3 years, entitle the holder to subscribe to common share of the Company at a price of $2.55 until February 27, 2017. The fair value of stock options is $1.62 per share.

During the first quarter of 2007, holders exercised their stock options or their warrants, and subscribed to a total of 231,249 shares in consideration of $511,290.

The Black-Scholes options pricing model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable, a practice significantly different from how stock options are granted by the Company. In addition, option pricing models require the input of highly subjective assumptions including the expected stock price volatility. Any changes in the assumptions can materially affect the fair value estimate.

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

	2007
Risk free interest rate	4.02%
Expected volatility	57.8%
Life	10 years
Expected dividend yield	0%

The weighted average fair value of options granted is established at $1.62.

The fair value of the warrants at the grant date is estimated using the Black-Scholes option pricing model under the following weighted average assumptions:

	2007
Risk free interest rate	3.98%
Expected volatility	53.6%
Life	1.9 an
Expected dividend yield	0 %

The weighted average fair value of warrants granted is established at $0.71.

Notes to the Financial Statements (cont'd)
Three month period ended March 31 (Unaudited)

3. Share Capital (cont'd)

Stock options and Warrants (cont'd)

Stock options and Warrants varied as follows:

	MARCH 31, 2007	
	NUMBER	**WEIGHTED AVERAGE EXERCISE PRICE**
Stock Options		
Outstanding at the beginning of period	**2,292,066**	$ 2.16
Granted	**183,500**	2.55
Exercised	**(9,999)**	2.26
	2,465,567	$ 2.19
Warrants		
Outstanding at the beginning of period	**2,621,100**	2.48
Granted	**5,060,000**	2.95
Exercised	**(221,250)**	2.21
Forfeited	**-**	-
	7,459,850	$ 2.81
Outstanding at the end of period	**9,925,417**	$ 2.65
Exercisable at the end of period	**9,019,952**	$ 2.66

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