quarterly report
april may june

Q2 2007

Message from the Chief Executive Officer

Dear Shareholders:

During the second quarter of 2007, more specifically in the month of June, we sold four *125L* Ozone Sterilizers, including three in the United States and one in Canada. This performance at the end of the quarter is the result of sustained sales efforts undertaken several months ago. With a sales cycle estimated at about 12 to 18 months, we are now starting to reap the rewards of our past efforts.

As a result of the $23 million in financing obtained last March, we have the resources to prioritize the commercialization of the *125L* Ozone Sterilizer and to increase our sales force. We have therefore recruited many sales professionals, mainly in the United States. These veteran sales people have solid experience in sterilization and the sale of capitalized equipment. They have also taken intensive and personalized training to master all the elements necessary to speed up the commercialization of the *125L* Ozone Sterilizer and to ensure optimal reach in the North American market.

We have also hired a national account manager who has more than 30 years of experience in sales and management, including many years in upper management of sales at our main competitor. We believe this highly experienced latest addition, already very well known in the business, will boost our commercial development in the major American hospital networks.

Today, the four managers responsible for our sales and marketing department have a total of more than 60 years of experience introducing new sterilization technology in hospital settings.

Furthurmore, during this quarter, we implemented a stock purchase plan. Under this plan, employees and executives can contribute up to 5% of their salary to buy Company shares. The Company will increase this amount by 50% of any contribution made by employees or executives. These contributions will be turned over to a brokerage firm every month, which will purchase the Company's shares at the market price on or about the last working day of each month. This program allows employees to share in the success of the enterprise which, in effect, is the success of their efforts. This program has been very successful as nearly 45% of employees, in addition to the Company's four top executives, have joined the plan.

We foresee accelerating sales from now to the end of the year, a period that is generally active in our market. Indeed, we are confident that the potential customers currently in the pipeline will be sufficient to meet our objectives and support our business plan for 2007.

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 the two periods. Since the beginning of 2006, the Company has hired several sales managers, mainly in the United States. This team now benefits from the contributions 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 June 30 (unaudited)

	SECOND QUARTER		SIX MONTHS	
	2007	2006	**2007**	2006
SALES	**$ 575,253**	$ 300,800	**$773,876**	$602,149
EXPENSES				
Operating	**492,750**	379,607	**814,784**	878,083
Marketing	**1,085,907**	779,657	**1,984,136**	1,495,379
Research & Development	**412,294**	421,817	**829,024**	879,946
Administrative	**775,558**	648,178	**1,577,445**	1,515,259
Financial	**3,335**	6,935	**6,706**	10,302
	2,769,844	2,236,194	**5,212,095**	4,778,969
OPERATING LOSS	**2,194,591**	1,935,394	**4,438,219**	4,176,820
OTHER REVENUES	**560,570**	443,320	**735,062**	679,383
NET LOSS	**$1,634,021**	$1,492,074	**$3,703,157**	$3,497,437
NET LOSS PER SHARE BASIC & DILUTED	**$0.04**	$0.04	**$0.09**	$0.10
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	**46,243,702**	36,532,147	**42,814,930**	36,491,938

OPERATING RESULTS

Quarter ended June 30, 2007, compared with the same quarter ended June 30, 2006.

Sales

Sales for the second quarter ended June 30, 2007, amounted to $575,253 compared to $300,800 for the same period in 2006. The Company recorded the sale of four *125L* Ozone Sterilizers and accessories during the second quarter of 2007, compared to two sales and accessories for the same period in 2006. Three of the four sales were sold in the United States and one to a Canadian referral site. For the six-month period ended June 30, 2007, sales amounted to $773,876 representing five sterilizers compared to $602,149 also representing five sterilizers for the same period in 2006. Sales increased between the two periods, despite the appreciation of the Canadian dollar, because of the increase of the sale price of the *125L* Ozone Sterilizer and the increase of sales of accessories required to operate the Sterilizer.

Operating

Operating expenses were $492,750 for the three-month period ending June 30, 2007, compared to $379,607 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 goods sold. The variance between the two periods is mainly explained by an increase in the cost of sold merchandise. On the other hand, salaries decreased between the two periods. For the six-month period ended June 30, 2007, Operating Expenses amounted to $814,784 compared to $878,083 for the same period in 2006. The variance between the two periods is explained by a decrease in payroll costs associated with operating activities as well as a decrease in warranty fees.

Marketing

Marketing expenses amounted to $1,085,907 for the three-month period ended June 30, 2007 compared to $779,657 for the same period in 2006. The difference between the two periods is explained by an increase in salaries as well as sales-related expenses due to the expansion of the sales & marketing team. On the other hand, costs related to referral sites decreased between the two periods. For the six-month period ended June 30, 2007, marketing expenses amounted to $1,984,136 compared to $1,495,379 for the same period in 2006. The variance between the two periods is also explained by an increase in salaries and sales-related expenses. On the other hand, costs related to referral sites, and bonuses decreased between the two periods.

Research and Development Activities

For the three-month period ended June 30, 2007, Research and Development expenses before tax credits amounted to $412,294 compared to $421,817 for the same period in 2006. R&D expenses were very similar between the two periods. For the six-month period ended June 30, 2007, Research and Development amounted to $829,024 compared to $879,946 for the same period in 2006. The decline is explained by a reduction in payroll costs associated with R&D activities. On the other hand, costs related to R&D material purchases increased between the two periods.

OPERATING RESULTS (cont'd)

Administration

Administration expenses amounted to $775,558 for the three-month period ended June 30, 2007 compared to $648,178 for the same period in 2006. The difference between the two periods is mainly due to an increase in salaries, fees related to patents and *Stock-based Compensation*. On the other hand, professional fees decreased. For the six-month period ended June 30, 2007, administration expenses increased $62,186 to reach $1,577,445 compared to $1,515,259 for the corresponding period of the preceding fiscal year. The difference between the two periods is mainly due to an increase in salaries and *Stock-based Compensation*. On the other hand, a decrease in professional fees occurred.

Other Revenues

For the three-month period ended June 30, 2007, the Company realized revenues of $560,570 compared to $443,320 for the same period in 2006. The increase is explained primarily by an increase in investment revenues, income tax credits and government grants. On the other hand, the Company experienced a loss in revenue due to exchange rate fluctuations. For the six-month period ended June 30, 2007, other revenues amounted to $735,062 compared to $679,383 for the corresponding period of the preceding fiscal year. The increase is explained primarily by an increase in investment revenues and government grants. On the other hand the Company experienced a loss in revenue due to exchange rate fluctuations.

Net Loss

The Company recorded a net loss of $1,634,021 or $0.04 per share for the second quarter of 2007, compared to a net loss of $1,492,074, $0.04 per share, for the same period in 2006. For the six-month period ended June 30, 2007, net loss was $3,703,157, or $0.09 per share, compared to $3,497,437, or $0.10 per share for the same period in 2006.

SELECTED ELEMENTS

	JUNE 30		DECEMBER 31		
	2007	2006	2006	2005	2004
Cash & Temporary Investment	**$25,686,620**	$10,717,088	$ 7,308,782	$14,595,003	$10,678,563
Accounts Receivable	**$ 1,121,320**	$ 721,500	$ 811,119	$ 344,302	$ 332,331
Inventories	**$ 2,961,635**	$ 3,223,549	$ 3,387,837	$ 3,303,258	$ 2,845,586
Deferred Revenues	**$ 147,347**	$ 372,584	$ 75,709	$ 961,826	$ 36,060
Assets	**$34,098,080**	$18,934,240	$15,743,739	$22,587,034	$18,310,919

OPERATING RESULTS (cont'd)

Liquid Assets and Financial Situation

As of June 30, 2007, cash and temporary investments amounted to $25,686,620 and accounts receivable amounted to $1,121,320, for a total amount of $26,807,940 compared to $11,438,588 as of June 30, 2006. The difference between the two periods is mainly due to the realization of financing of $23 million on March 8, 2007.

Accounts Receivable

Accounts Receivable as of June 30, 2007, amounted to $1,121,320 compared to $721,500 for the same period in 2006. The difference between the two periods is due to an increase in the accounts receivable and tax credits receivable.

Inventories

As of June 30, 2007, short term assets showed inventory valued at $2,961,635 compared to $3,223,549 for the same period in 2006. These amounts correspond to allocations for the production of sterilizers for the commercialization process.

Deferred Revenues

Deferred revenues as of June 30, 2007, amounted to $147,347 compared to $372,584 for the same period in 2006. The item *Deferred revenues* reflects financial transactions relative to parts, warranties and service contracts paid in advance but not yet recognized as revenues. As of June 30, 2006, the item *deferred revenues* also included amounts received for sterilizers in trial use.

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	**$ 18,317**	$ 19,632	$ 3,590
Referral and Pilot Sites	**16,012**	-	-
R&D Contract	**97,335**	-	-
TOTAL	**$131,664**	$ 19,632	$ 3,590

SUMMARY OF QUARTERLY RESULTS

($000 except loss/share)	**2007** **Q2**	Q1	2006 Q4	Q3	Q2	Q1	2005 Q4	Q3	Q2
Sales	**575**	199	434	34	301	301	11	161	-
Other Revenues	**561**	174	242	150	443	236	197	157	75
Net Loss	**1,634**	2,069	1,967	2,013	1,492	2,005	1,835	1,401	1,637
Net Loss per share (basic and diluted)	**0.04**	0.05	0.05	0.06	0.04	0.05	0.05	0.04	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 June 30, 2007, the monthly burn-rate was approximately $630,000. The Company anticipates that its monthly burn-rate could increase due to an increase in expenses related to the commercialization of the *125L* Ozone Sterilizer and then decrease as sales accelerate.

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 common share at a price of $3.00 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, 2008.

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 June 30, 2007, 2,399,850 warrants were outstanding.

CAPITAL RESOURCES (cont'd)

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 June 30, 2007.

As of June 30, 2007, the number of outstanding shares was 46,244,102.

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

	JUNE 30		DECEMBER 31	
	2007	2006	2006	2005
Rent	**$29,683**	$ 28,902	$ 57,804	$ 56,560
Other Rent-Related Expenses	**41,778**	43,810	76,431	73,462
	$71,461	$72,712	$134,235	$130,022

As of June 30, 2007, no amount ($18,039 in 2006) was included in accounts payable related to a related party.

ACCOUNTING POLICY MODIFICATIONS

Impact of adopting financial instruments

On January 1, 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.

ACCOUNTING POLICY MODIFICATIONS (cont'd)

Impact of adopting financial instruments (cont'd)

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

	JUNE 30	
	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, described hereafter, 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.

CRITICAL 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, license 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 $56,825, related to intangible assets, were recorded in the second quarter of 2007 compared to $54,855 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 two first quarters of 2007, approximately 78% of the Company's sales were in U.S. dollars compared to 83% 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:

	JUNE 30	
	2007	2006
Canada	**$172,356**	$102,442
United States	**601,520**	499,707
	$773,876	$602,149

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.

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.

RISK FACTORS (cont'd)

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 August 1, 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 Finance and Chief Financial Officer

August 1, 2007

Quarterly Financial Statements

The Quarterly Financial Statements have not been reviewed by External Auditors

Balance Sheet

as of

	JUNE 30 2007 (unaudited)	DECEMBER 31 2006 (audited)	JUNE 30 2006 (unaudited)
CURRENT ASSETS			
Cash	**$ 2,328,467**	$ 753,885	$ 967,510
Temporary Investments	**23,358,153**	6,554,897	9,749,578
Account receivable	**1,121,320**	811,119	721,500
Inventories	**2,961,635**	3,387,837	3,223,549
Prepaid Expenses	**125,979**	133,651	66,940
	29,895,554	11,641,389	14,729,077
PROPERTY, PLANT AND EQUIPMENT	**518,331**	390,608	433,971
INTANGIBLE ASSETS	**3,684,195**	3,711,742	3,771,192
	$34,098,080	$15,743,739	$18,934,240
CURRENT LIABILITIES			
Accounts Payable and Accrued Liabilities	**1,087,975**	1,043,700	864,729
Deferred Revenues	**147,347**	75,709	372,584
	1,235,322	1,119,409	1,237,313
SHAREHOLDERS' EQUITY			
Share Capital	**68,120,675**	47,149,127	46,457,509
Contributed Surplus	**8,171,801**	4,999,850	4,784,059
Deficit	**(43,429,718)**	(37,524,647)	(33,544,641)
	32,862,758	14,624,330	17,696,927
	$34,098,080	$15,743,739	$18,934,240

Statements of Earnings

Periods ended June 30 (unaudited)

	SECOND QUARTER		SIX MONTHS	
	2007	2006	**2007**	2006
SALES	**$575,253**	$300,800	**$773,876**	$602,149
EXPENSES				
Operating	**492,750**	379,607	**814,784**	878,083
Marketing	**1,085,907**	779,657	**1,984,136**	1,495,379
Research & development	**412,294**	421,817	**829,024**	879,946
Administrative	**775,558**	648,178	**1,577,445**	1,515,259
Financial	**3,335**	6,935	**6,706**	10,302
	2,769,844	2,236,194	**5,212,095**	4,778,969
OPERATING LOSS	**2,194,591**	1,935,394	**4,438,219**	4,176,820
OTHER REVENUES	**560,570**	443,320	**735,062**	679,383
NET LOSS	**$1,634,021**	$1,492,074	**$3,703,157**	$3,497,437

Earnings per share

	SECOND QUARTER		SIX MONTHS	
	2007	2006	**2007**	2006
BASIC AND DILUTED NET LOSS PER SHARE	**$1,634,021**	$1,492,074	**$3,703,157**	$3,497,437
NUMBER OF SHARES				
Weighted average number of outstanding shares (1)	**46,243,702**	36,532,147	**42,814,930**	36,491,938
LOSS PER SHARE				
Basic	**$0.04**	$0.04	**$0.09**	$0.10
Diluted (1)	**$0.04**	$0.04	**$0.09**	$0.10

(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 June 30 (unaudited)

	SECOND QUARTER		SIX MONTHS	
	2007	2006	**2007**	2006
Balance, Beginning of Period	**$8,013,643**	$4,650,379	**$4,999,850**	$4,620,592
Warrants exercised	**(13,176)**	(2,475)	**(27,063)**	(2,475)
Options exerciced	**-**	-	**(234,246)**	(86,006)
Share issue expenses	**-**	-	**2,819,051**	-
Compensation options	**-**	-	**281,520**	-
Stock-based compensation	**171,334**	136,155	**332,689**	251,948
Balance, End of Period	**$8,171,801**	$4,784,059	**$8,171,801**	$4,784,059

Statements of Deficit

Periods ended June 30 (unaudited)

	SECOND QUARTER		SIX MONTHS	
	2007	2006	**2007**	2006
Balance, Beginning of Period	**$41,777,439**	$32,052,567	**$37,524,647**	$30,047,204
Accounting Changes (Note 2)	**-**	-	**(20,216)**	-
Restated Deficit	**41,777,439**	32,052,567	**37,504,431**	30,047,204
Share issue expenses	**18,258**	-	**1,940,610**	-
Compensation options	-	-	**281,520**	-
Net Loss	**1,634,021**	1,492,074	**3,703,157**	3,497,437
Balance, End of Period	**$43,429,718**	$33,544,641	**$43 429 718**	$33,544,641

Statements of Cash Flows

Periods ended June 30 (undaudited)

	SECOND QUARTER		SIX MONTHS	
	2007	2006	**2007**	2006
OPERATING ACTIVITIES				
Net loss	**$(1,634,021)**	$(1,492,074)	**$(3,703,157)**	$(3,497,437)
Adjustments for :				
Amortization of property, plant and equipment	**34,579**	36,534	**67,834**	67,562
Amortization of intangible assets	**56,825**	54,855	**112,577**	109,434
Stock-based compensation	**171,334**	136,155	**332,689**	251,948
Lost on disposal of property, plant and equipment	**457**	-	**457**	-
	(1,370,826)	(1,264,530)	**(3,189,600)**	(3,068,493)
Changes in non-cash operating working capital items	**(497,527)**	(820,649)	**239,586**	(1,008,539)
Cash flows used in operating activities	**(1,868,353)**	(2,085,179)	**(2,950,014)**	(4,077,032)
INVESTING ACTIVITIES				
Acquisition of temporary investments	**(11,012,967)**	(4,566,990)	**(11,012,967)**	(4,624,698)
Disposal of temporary investments	**7,000,000**	89,016	**7,000,000**	3,173,341
Acquisition of property, plant and equipment	**(16,535)**	(66,030)	**(196,014)**	(85,206)
Acquisition of intangible assets	**(54,979)**	(27,807)	**(85,030)**	(48,376)
Cash flows from (used in) investing activities	**4,084,481**	(4,571,811)	**(4,294,011)**	(1,584,939)
FINANCING ACTIVITIES				
Exercised options	**18,000**	(2,475)	**40,565**	(2,475)
Exercised warrants	**-**	-	**488,725**	(86,006)
Share issue expenses	**(18,258)**	-	**(1,940,610)**	-
Share issue	**-**	101,049	**23,000,000**	421,180
Cash flows from (used in) investing activities	**(258)**	98,574	**21,588,680**	332,699
INCREASE IN CASH AND CASH EQUIVALENTS	**(5,953,092)**	(6,558,416)	**14,344,655**	(5,329,272)
CASH AND CASH EQUIVALENTS AT BEGINNING	**27,626,745**	8,525,779	**7,328,998**	7,296,635
CASH AND CASH EQUIVALENTS AT END	**$21,673,653**	$1,967,363	**$21,673,653**	$1,967,363
Comprised of:				
Cash	**2,328,466**	967,510	**2,328,466**	967,510
Temporary investments less than three months	**19,345,187**	999,853	**19,345,187**	999,853
Temporary investments more than three months	**4,012,967**	8,749,725	**4,012,967**	8,749,725
CASH AND TEMPORARY INVESTMENTS	**$25,686,620**	$10,717,088	**$25,686,620**	$10,717,088

The notes are an integral part of the financial statements.

Notes to the Financial Statements

Six-month period ended June 30 (Unaudited)

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 preceding January 1, 2007 were not restated.

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

	JUNE 30	
	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, license or trademarks, according to the following:

Patents	20 years
License	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.

2. Accounting policies (cont'd)

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	**JUNE 30 2007**	DECEMBER 31 2006
46,244,102 common shares	**$68,120,675**	$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 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. 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.

3. Share Capital (cont'd)

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, 2008.

Stock-based compensation and other payments

Stock purchase plan for employees

On May 2, 2007, the Company implemented a stock purchase plan for employees and executives. Under this plan, employees and executives have the benefit of contributing up to 5% of their salary to the purchase of the Company stock, and the Company matches 50% of this contribution. These contributions will be turned over to a brokerage firm every month, which will purchase the Company's shares at the market price on or about the last working day of each month. Since its introduction, during the second quarter of 2007, the company has not had any significant charges related to this plan.

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 three 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.

As of May 2, 2007, the Company has granted 64,000 stock options to certain employees and managers. These options, which vests over three years, entitle the holder to subscribe to common share of the Company at a price of $2.20 until May 2, 2017. The fair value of stock options is $1.58 per share.

During the first two quarters of 2007, holders exercised their stock options or their warrants, and subscribed to a total of 243,249 shares in consideration of $529,290.

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.

3. Share Capital (cont'd)

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	4.06%
Expected volatility	57.6%
Life	10 years
Expected dividend yield	0%

The weighted average fair value of options granted is established at $1.61.

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 year
Expected dividend yield	0%

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

3. Share Capital (cont'd)

Stock options and Warrants varied as follows:

	SECOND QUARTER		SIX MONTHS	
	NUMBER	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER	WEIGHTED AVERAGE EXERCISE PRICE
Stock Options				
Outstanding at the beginning of period	2,465,567	$2.19	2,292,066	$2.16
Granted	60,523	$2.18	244,023	$2.46
Exercised	(12,000)	$1.50	(21,999)	$1.84
Forfeited	(30,160)	$2.36	(30,160)	$2.36
	2,483,930	$2.19	2,483,930	$2.19
Warrants				
Outstanding at the beginning of period	7,459,850	$2.81	2,621,100	$2.48
Granted	-	-	5,060,000	$2.95
Exercised	-	-	(221,250)	$2.21
Forfeited	-	-	-	-
	7,459,850	$2.81	7,459,850	$2.81
Outstanding at the end of period	9,943,780	$2.65	9,943,780	$2.65
Exercisable at the end of period	9,191,548	$2.65	9,191,548	$2.65

4. Subsequent Events

At the beginning of the third quarter 2007, holders exercised 1,613,300 warrants (issued on July 7, 2005) at a price of $2.50 and subscribed for a total of $4,033,250.

HEADQUARTERS
TSO_3 Inc.
2505, avenue Dalton
Québec (Québec)
Canada G1P 3S5

Telephone: (418) 651-0003
Fax: (418) 653-5726

www.tso3.com
Ticker Symbol: TOS (TSX)

COMMUNICATIONS AND
INVESTOR RELATIONS

Telephone: (418) 651-0003, Ext. 237
Fax: (418) 653-5726
E-mail: ir@tso3.com