quarterly report
january february march

Q1 2008

TSO3

INDEX

MESSAGE FROM THE CHIEF EXECUTIVE OFFICER

Dear Shareholders:

I am pleased, with the support of the Board, to assume the position of interim President and Chief Executive Officer at TSO_3 following the departure of Jocelyn Vézina, and to immediately evaluate and initiate the necessary actions that will lead to enhancing the Company's revenue and market-share growth.

During my 35-year career, I have acted as both a company executive – for public and private businesses – and as a consultant. Indeed, until very recently I was a consultant to TSO_3 as one of the executive directors of the American consulting firm The Sage Group, well known for the quality of its international expertise in the healthcare industry, notably in marketing and business development. My appointment to the position of President and CEO therefore offers TSO_3 two significant advantages, as I thoroughly understand the Company's markets and industry, and I am up to date on the realities of the Company itself.

In regards to the initiatives to be undertaken in the short term, it is clear that TSO_3 must count on a commercialization strategy that is better targeted to our primary market in North America. A realignment of sales and marketing resources to focus on market segmentation will increase our product penetration rate. Based on the strength of the sales record to date and the recent mandate of The Sage Group, we have identified the client profile to target in the very short term, which will allow us to be more effective. We will also look into the Company research and development program to ensure it is well adapted to the needs and expectations of other market segments we are targeting, and segments we wish to develop.

Over the past few months, I have had the opportunity to meet the Company's current customers. I want to point out that all these customers have expressed their satisfaction with the product and after-sale service received. The benefits presented in terms of savings, ease of use and safety have all been confirmed by the clientele. Clearly, TSO_3 has a product that has its place in the sterilization market, currently for a segment that desires low-cost, easy-to-use, safe sterilization, and with the additional enhancements planned TSO_3 has an opportunity for sustained market growth.

As for the Company's recent accomplishments, let us point to the partnership with Broadlane, a national purchasing group among the most important and the best recognized in the United States, now allowing us to offer our product to hundreds of American health organizations in this hospital group. This partnership constitutes a business opportunity and greater visibility for TSO_3.

What's more, regarding future opportunities, we have obtained promising preliminary results as part of ongoing research in England as to the capacity of the *125L* Ozone Sterilizer to deactivate the infectious prions that cause Creutzfeldt-Jakob disease – the human version of mad cow disease. The encouraging results support the great effectiveness of our sterilizing agent – ozone – and allow us to foresee an additional application for our device in the future.

Among our accomplishments, we have also closed two very recent sales in the U.S. and are currently re-evaluating our efforts and resources to increase our sales growth in the coming months.

I thank you for your continued support for TSO_3 and I am committed to ensuring the next phase of growth to continue to enhance shareholder value.

W.Barry McDonald
Interim 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, TSO_3 (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 has been 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.

INTERNAL SALES FORCE

The Company relies on its own sales force to support its commercial sales strategy. Since the beginning of 2006, the Company has hired sales managers, predominantly in the United States. The team can now profit from the contribution of sales professionals who have extensive experience working with capital equipment sales to both operating rooms and central sterilization departments in hospitals.

SUMMARY OF OPERATING RESULTS
Period ended March 31 (unaudited)

	FIRST QUARTER	
	2008	2007
SALES	**$91,147**	$198,623
EXPENSES		
Operating	**352,583**	322,034
Marketing	**935,096**	898,229
Research and development	**472,444**	416,730
Administrative	**787,358**	801,887
Financial	**5,498**	3,371
	2,552,979	2,442,251
OPERATING LOSS	**2,461,832**	2,243,628
OTHER REVENUES	**301,500**	174,492
NET LOSS	**$2,160,332**	$2,069,136
BASIC AND DILUTED NET LOSS PER SHARE	**$0,05**	$0,05
WEIGHTED AVERAGE NUMBER OF SHARES OUTSANTDING	**47,863,402**	39,386,158

OPERATING RESULTS

Quarter ended March 31, 2008, compared with the same quarter ended March 31, 2007.

Sales
Sales for the three-month period ended March 31, 2008 amounted to $91,147 compared to $198,623 for the same period in 2007. The Company realized only sales of accessories, during the first quarter of 2008, compared to the sale of one *125L* Ozone Sterilizer and related accessories during the corresponding period in 2007.

Operation
Operating expenses were $352,583 for the three-month period ending March 31, 2008, compared to $322,034 for the same period in 2007. Operating expenses are related to the Production and After-Sales Service Department operations as well as the cost of manufacturing the *125L* Ozone Sterilizer. The variance between the two periods is explained by an increase related to salaries as a result of the expansion of the After-Sales service team, as well as fees related to warranties.

Marketing
Marketing expenses amounted to $935,096 for the three-month period ended March 31, 2008 compared to $898,229 for the same period in 2007. The variance between the two periods is explained by an increase related to salaries as a result of the expansion of the Sales and Marketing team, as well as an increase in professional fees. On the other hand, costs related to representation fees decreased between the two periods.

Research and Development Activities
For the three-month period ended March 31, 2008, R&D expenses before tax credits amounted to $472,444 compared to $416,730 for the same period in 2007. The variance between the two periods is explained by an increase related to salaries and sub-contract work on compatibility.

Administrative
Administrative expenses amounted to $787,358 for the three-month period ended March 31, 2008 compared to $801,887 for the same period in 2007. The variance between the two periods is mainly attributed to a decrease in *Stock-based Compensation*. On the other hand, costs related to professional fees increased along with costs to maintain patents.

Other Revenues
For the three-month period ended March 31, 2008, the Company realized other revenues of $301,500 compared to $174,492 for the same period in 2007. This increase is explained primarily by an increase in investment revenues as well as R&D tax credits.

Net Loss
The Company recorded a net loss of $2,160,332 or $0.05 per share for the first quarter of 2008, compared to a net loss of $2,069,136, also $0.05 per share for the same period in 2007.

SELECTED ELEMENTS

	MARCH 31		DECEMBER 31		
	2008	2007	2007	2006	2005
Cash, Cash equivalents and Temporary investments	**$23,633,349**	$27,626,745	$26,205,174	$7,308,782	$14, 595,003
Accounts Receivable	**$969,421**	$634,122	$975,011	$811,000	$344,302
Inventories	**$3,180,295**	$3,139,718	$2,996,409	$3,387,837	$3,303,258
Deferred Revenues	**$130,053**	$69,163	$145,878	$75,709	$961,826
Assets	**$32,295,314**	$35,757,237	$34,487,951	$15,743,739	$22,587,034
Share Capital and Contributed Surplus	**$80,771,911**	$76,103,141	$80,681,660	$52,148,977	$50,656,921
Shareholders' Equity	**$31,006,058**	$34,325,702	$33,041,196	$14,624,330	$20,609,717

Liquid Assets and Financial Situation

As of March 31, 2008, cash, cash equivalents and temporary investments amounted to $23,633,349 and accounts receivable to $969,421 for a total of $24,602,770 compared to $28,260,867 as of March 31, 2007.

Deferred Revenues

Deferred Revenues as of March 31, 2008, amounted to $130,053 compared to an amount of $69,163 as of March 31, 2007. The item *Deferred Revenues* reflects financial transactions relative to parts, warranties and service contracts not yet recognized as revenues. The increase between the two periods is explained by amounts received for service contracts.

Share capital and contributed surplus

As of March 31, 2008, share capital and contributed surplus amounted to $80,771,911 compared to $76,103,141 as of March 31, 2007. The increase between the two periods is mainly due to the exercising of warrants issued in a previous financing. A total of 1,633,300 warrants were exercised at a price of $2.50.

REQUIRED CAPITAL AND CONTRACTUAL COMMITMENTS

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

	2008	2009	2010	2011	2012
Operating leases and service contracts	**$132,189**	$49,830	$43,959	$3,120	$260
R&D Contract	**79,190**	-	-	-	-
	$211,379	$49,830	$43,959	$3,120	$260

SUMMARY OF QUARTERLY RESULTS

	2008	2007				2006			
($000 except loss/ share)	**Q1**	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Sa;es	**91**	676	281	575	199	434	34	301	301
Other Revenues	**301**	399	331	561	174	242	150	443	236
Net Loss	**2,160**	2,166	2 ,43	1,634	2,069	1,967	2,013	1,492	2,005
Net Loss per share (basic and diluted)	**0.05**	0.04	0.04	0.04	0.05	0.05	0.06	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

The Company principally uses its capital to finance its R&D activities, administrative and operating expenses, commercialisation fees, marketing expenses, working capital and capital expenditures. Historically, the Company has funded its activities through several rounds of public and private financing, as well as from various government subsidies. Since its inception in June 1998, the Company has raised more than $70,000,000 from the sale of its equity.

For the three-month period ended March 31, 2008, the monthly burn-rate was approximately $880,000. The Company believes that its current liquid assets will be sufficient to finance its activities for a minimum period of two years.

On March 8, 2007, the Company closed a financing 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 of the Company at a price of $3.00 until March 8, 2009.

Furthermore, as additional consideration for services rendered, the Underwriters have been granted 460,000 warrants by the Company. Each warrant can be used to purchase one common share of the Company at a price of $2.50 until September 8, 2008.

The Company has a line of credit with which it can obtain advances up to a maximum of $350,000.

The Company invests its liquidities in fixed-income securities offered by governmental, paragovernmental and municipal entities as well as from companies that have high credit ratings. These securities are chosen according to the schedule of foreseen expenses and according to interest rates. Also, the Company does not hold investments in Asset Backed Commercial Paper that are not guaranteed by financial institutions or by the Government.

As of December 31, 2007, the number of outstanding shares was 47,863,402.

OFF-BALANCE SHEET TRANSACTION

The Company made no off-balance sheet transaction during the period.

TRANSACTIONS WITH RELATED PARTIES

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

Over the first quarter of 2008 and 2007 and the last two complete fiscal years, the Company has made the following related transactions, assessed at fair market value:

	MARCH 31		DECEMBER 31	
	2008	2007	2007	2006
Rent	**$14,841**	$14,841	$59,365	$57,804
Other Rent-related Expenses	**30,297**	34,161	67,069	76,431
	$45,138	$49,002	$126,434	$134,235

As of March 31, 2008, no amount was included in accounts payable related to a related party ($2,819 in 2007).

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.

Estimation and principal Accounting Policies
There has been no significant change to estimation and accounting policies since December 31, 2007, except to comply with the new accounting standards described hereafter. For a detailed description of the new accounting standards, refer to the corresponding section of our 2007 Annual report available on the SEDAR website (www.sedar.com).

ACCOUNTING CHANGES

Impact of adopting instruments standards
On January 1, 2008 the company adopted the new accounting standards issued by the Canadian Institute of Chartered Accountants (CICA) : “Capital Disclosures” (section 1535), “Inventories” (section 3031), “Financial Instruments – Disclosure” (section 3862) and “Financial Instruments – Presentation” (section 3863). The new standards were applied prospectively without restatement of comparative financial statements.

1) Inventories: Section 3031 provides guidance on the determination of cost and its subsequent recognition as an expense, including any write-down to net realizable value. It also provides guidance on the cost formulas thar are used to assign costs to inventories.

On January 1, 2008, The Company adjusted the following balance sheet items in order to comply with the new accounting standard:

	MARCH 31	
	2008	2007
Increase (decrease)		
Balance sheet		
Inventories	**$34,943**	$ -
Statement of deficit		
Accounting changes	**($34,943)**	$ -

Since this standard came into effect, the Company has been recording its raw materials inventory at the lower of cost and net realizable value. In the past, the Company recorded raw materials inventory at the lower of cost and replacement value.

2) Capital: Section 1535, “Capital Disclosures”, establishes standards for disclosing information about an entity’s capital and how it is managed. It describes the disclosure requirements of the entity’s objectives, policies and processes for managing capital, the quantitative data relating to what the entity regards as capital, whether the entity has complied with capital requirements, and, if it has not complied, the consequences of such non-compliance.

   Since the standard came into effect, the Company has been presenting relevant information about capital management in the “Share capital” note.

ACCOUNTING CHANGES (CONT'D)

Impact of adopting instruments standards (cont'd)

3) Financial Instruments: Sections 3862 and 3863 place heightened importance on disclosure, enabling financial statement users to assess the nature and extent of the risks associated with the financial instruments to which the Company is exposed and the manner in which it manages these risks.

LIQUIDITY AND FINANCIAL RESOURCES

Management believes that it will be able to raise the necessary long-term capital to achieve the Company's 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.

PERSPECTIVES

The Company works in an industry dominated by multinational companies that market primarily two low temperature sterilization technologies: Ethylene Oxyde and Hydrogen Peroxide. The Company's primary target market are central sterilization departments in hospitals. This is, by nature, a conservative market where sales cycles are long as a result of administrative procedures. To address these realities, the Company relies on a combination of factors. First, the technology brings to the market a unique sterilization process that provides efficiency, economy and safety. Second, the Company relies on its own sales force, comprised of sales professionals who have extensive experience selling capital equipment to hospitals.

PERSPECTIVES (CONT'D)

In parallel, the Company must adjust to market demands and respond to new challenges notably the sterilization of flexible endoscopic instruments. The Company must therefore perfect the work necessary to guarantee the compatibility of this type of endoscope with its process – work that will require time and rigorousness but that is no different from the challenges that have already been met in the past. Therefore, the Company's objective in the short term is to focus the sales effort on customers that have shown an immediate need for the *125L* Ozone Sterilizer, while ensuring sales in the pipeline for 2009.

In addition, a significant portion of the Company's revenues are received in US dollars. The fluctuation of the exchange rate in favour of the Canadian dollar versus the US dollar negatively affects the Company bottom line. This reality is offset by the fact that approximately 35% of Company expenses are paid out in US dollars.

RATE RISK AND SEGMENTED INFORMATION

Interest rate risk

Interest rate risk exists when interest rate fluctuations modify the cash flows of the Company's investments.

At March 31, 2008, if the Canadian dollar had weakened 10 percent against the U.S. dollar with all other variables held constant, after-tax net income and other comprehensive income for the period would have been $34,891 lower. Conversely, if the Canadian dollar had strengthened 10 percent against the U.S. dollar with all other variables held constant, after-tax net income and other comprehensive income would have been $34,891 higher.

Operational Foreign Exchange Risk

For the first quarter of 2008, approximately 72% of the Company's sales were in Canadian dollars compared to 13% for the same period in 2007.

RATE RISK AND SEGMENTED INFORMATION (CONT'D)

Segmented Information

Operating revenues according to geographic area are as follows:

	MARCH 31	
	2008	2007
Canada	**$65,936**	$26,499
United States	**25,211**	172,124
	$91,147	$198,623

RISK FACTORS

Risks related to operating activities

The Company's activities entail certain risks and uncertainties inherent to the industry in which it operates. However, management has implemented a risk-reduction strategy that addresses:

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 of marketing on an international scale puts the Company in a position of direct competition with firms that possess networks and resources greater than its own. Nothing guarantees that the marketing campaigns implemented 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 negatively affected by factors such as Canadian and United States foreign trade policies, 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.

Intellectual Property and Counterfeiting Risks

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

Competition Risks

The Company's products face intense competition. Many of our competitors have greater financial resources and marketing capabilities than our own. 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 licence, 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 or require TSO_3 to spend more time and money to market 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's technology. To address the problems associated with such lawsuits, the Company is of the opinion that it has the necessary insurance coverage.

Cash Equivalents and Temporary Investments

The Company is exposed to various types of risks, including those related to the use of financial instruments. To manage the risks related to the use of financial instruments included in the various types of investments that make up cash equivalents and temporary investments, controls were put in place, particularly the cash and risk management policy. The measures aim primarily to optimize cash flow performance while reducing the main risks to which the Company is exposed, as described below:

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

Interest Rate Risk
Interest rate risk exists when interest rate fluctuations modify the cash flows of the Company's investments.

At March 31, 2008, if interest rates at that date had been 50 basis points lower and all other variables constant, after-tax net income and other comprehensive income for the period would have been $51,402 higher, arising mainly from an increase in the fair value of fixed rate financial assets classified as held for trading. If interest rates had been 50 basis points higher and all other variables constant, after-tax net income and other comprehensive income for the period would have been $51,026 lower, arising mainly from a decrease in the fair value of fixed rate financial assets classified as held for trading. Net income has a sensitivity similar to the interest rate decreases than to the increases because of investments with capped interest rates.

RISK FACTORS (CONT'D)

Cash Equivalents and Temporary Investments (cont'd)

Credit Risk

The use of financial instruments can create a credit risk that is the risk of financial loss resulting from counterparty's inability or refusal to fully discharge its contractual obligations. The Company's credit risk management policies include the authorization to carry out investment transactions with recognized financial institutions, with credit ratings of at least A and higher, in either bonds, money market funds or guaranteed investment certificates according to Standard and Poor's Agency. Consequently, the Company manages credit risk by complying with the established investment policies. The Company establishes investment policies that are reviewed, regularly updated and approved. The policies define the credit risk limits based on the characteristics of the counterparties. As of March 31, 2008, the investments of the Company were all quoted by a recognized agency.

Concentration Risk

Concentration risk exists when investments are made with multiple entities that share similar characteristics or when a large investment is made with a single entity. As of March 31, 2008, the Company was holding more than 82% of its cash equivalents portfolio in a money market fund.

Liquidity Risk

Liquidity risk represents the possibility of the Company not being able to raise the funds needed to meet financial commitments at the appropriate time and under reasonable conditions. The Company manages this risk by maintaining permanent and sufficient liquidity to meet current and future financial obligations, under both normal and exceptional circumstances. The funding strategies used to manage this risk include turning to capital markets to carry out issues of equity and debt securities.

DISCLOSURE CONTROLS AND PROCEDURES

The Chief Executive Officer and the Chief Financial Officer of the Company are responsible for establishing and maintaining the Company's controls and disclosure procedures. They are assisted in this responsibility by the Company's Communication Committee, which is composed of members of Senior Management, the Director of Communications and IR, as well as the Company's legal advisor. As required by Securities Legislation, the CEO and the CFO have conducted an evaluation for the controls and procedures regarding information disclosure and have concluded that these controls and procedures are effective.

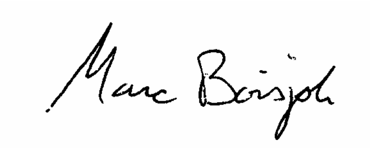
PROSPECTIVE STATEMENT

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 29, 2008. 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 29, 2008

QUARTERLY FINANCIAL STATEMENTS

The Quarterly Financial Statements have not been reviewed by External Auditors

STATEMENT OF EARNINGS

Periods ended March 31 (unaudited)

	FIRST QUARTER	
	2008	2007
SALES	**$ 91,147**	$ 198, 623
EXPENSES		
Operating	**352,583**	322,034
Marketing	**935,096**	898,229
Research and development	**472,444**	416,730
Administrative	**787,358**	801,887
Financial	**5,498**	3,371
	2,552,979	2,442,251
OPERATING LOSS	**2,461,832**	2,243,628
OTHER REVENUE	**301,500**	174,492
NET LOSS	**$2,160,332**	$2,069,136

EARNINGS PER SHARE

	FIRST QUARTER	
	2008	2007
BASIC AND DILUTED NET LOSS PER SHARE		
NUMBER OF SHARES		
Weighted average number of outstanding shares (1)	**47,063,402**	39,386,158
LOSS PER SHARE		
Basic	**$0.05**	$0.05
Diluted	**$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	
	2008	2007
Balance, beginning of period	**$7,471,369**	4,999,850
Options exercised	**-**	(13,887)
Warrants exercises	**-**	(234,246)
Warrants related to the financing	**-**	2,819,051
Compensation Options	**-**	281,520
Stock-based Compensation	**90,251**	161,355
Balance, end of period	**$7,561,620**	$8,013,643

STATEMENTS OF DEFICIT

Periods ended March 31 (unaudited)

	FIRST QUARTER	
	2008	2007
Balance, beginning of period	**$47,640,464**	$37,524,647
Change in accounting policies	**(34,943)**	(20,216)
Restated deficit	**47,605,521**	37,504,431
Share issue expenses	**-**	1,922,352
Compensation Options	**-**	281,520
Net loss	**2,160,332**	2,069,136
Balance, end of period	**$49,765,853**	$41,777,439

BALANCE SHEET as of

	March 31 2008 (unaudited)	December 31 2007 (audited)
CURRENT ASSETS		
Cash and cash equivalents	**$22,464,186**	$22,081,727
Temporary investments	**1,169,163**	123,447
Accounts receivable	**969,421**	975,011
Inventories	**3,180,295**	2,996,409
Prepaid expenses	**204,228**	139,410
	27,987,293	30,316,004
PROPERTY, PLANT AND EQUIPMENT	**696,390**	508,118
INTANGIBLE ASSETS	**3,611,632**	3,663,829
	$32,295,315	$34, 487,951
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	**$1,159,204**	$1,300,877
Deferred revenues	**130,053**	145,878
	1,289,257	1,446,755
CAPITAUX PROPRES		
Share capital	**73,210,291**	73,210,291
Contributed surplus	**7,561,620**	7,471,369
Deficit	**(49,765,853)**	(47,640,464)
	31,006,058	33,041,196
	$32,295,315	$34,487, 951

STATEMENTS OF CASH FLOWS
Periods ended March 31 (unaudited)

	FIRST QUARTER	
	2008	2007
OPERATING ACTIVITIES		
Net loss	$(2,160,332)	$(2,069,136)
Adjustement for:		
Amortization of property, plant and equipment	40,105	33,255
Amortization of intangible assets	58,606	55,752
Change in the value of temporary investments	(58,263)	-
Stock-based compensation	90,251	161,355
Gain on disposal of property, plant and equipment	(8,353)	-
	(2,037,986)	(1,818,774)
Changes in non-cash operating working items	(400,612)	(737,113)
Impact of new standards	34,943	-
Cash flows used in operating activities	(2,403,655)	(1,081,661)
INVESTING ACTIVITIES		
Disposal of temporary investments	3,012,547	-
Acquisition of property, plant and equipment	(228,377)	(179,479)
Acquisition of intangible assets	(6,409)	(30,051)
Disposal of property, plant and equipment	8,353	-
Cash flows used in investing activities	2,786,114	(209,530)
FINANCING ACTIVITIES		
Options exercised	-	22,565
Warrants exercised	-	488,725
Share issue expenses	-	(1,922,352)
Share issue	-	23,000,000
Cash flows used in financing activities	-	21,588,938
INCREASE IN CASH AND CASH EQUIVALENTS	382,459	20,297,747
Cash and cash equivalents at beginning	22,081,727	7,328,998
CASH AND CASH EQUIVALENTS AT THE END	$22,464,186	$27,626,745
Comprised of :		
Cash	$22,464,186	$ 1,450,462
Temporary investments less than three months	-	26,176,283
	22,464,186	27,626,745
Temporary investments more than three months	1,169,163	-
CASH, CASH EQUIVALENTS AND TEMPORARY INVESTMENTS	$23,633,349	$27,626,745

The accompanying notes are in integral part of the financial statements

Conventions comptables

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, 2007.

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, 2007.

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

ACCOUNTING CHANGES

Impact of adopting financial instrument standards

On January 1, 2008 the company adopted the new accounting standards issued by the Canadian Institute of Chartered Accountants (CICA): "Capital Disclosures" (section 1535), "Inventories" (section 3031), "Financial Instruments – Disclosure" (section 3862) and "Financial Instruments – Presentation" (section 3863). The new standards were applied prospectively without restatement of comparative financial statements.

1) Inventories: Section 3031 provides guidance on the determination of cost and its subsequent recognition as an expense, including any write-down to net realizable value. It also provides guidance on the cost formulas that are used to assign costs to inventories.

ACCOUNTING CHANGES (CONT'D)

Impact of adopting financial instrument standards (cont'd)
On January 1, 2008, The Company adjusted the following balance sheet items in order to comply with the new accounting standard:

	MARCH 31	
	2008	2007
Increase (decrease)		
Balance sheet		
Inventories	**$34,943**	$ -
Statement of deficit		
Accounting changes	**($34,943)**	$ -

Since this standard came into effect, the Company has been recording its raw materials inventory at the lower of cost and net realizable value. In the past, the Company recorded raw materials inventory at the lower of cost and replacement value.

2) Capital: Section 1535, "Capital Disclosures", establishes standards for disclosing information about an entity's capital and how it is managed. It describes the disclosure requirements of the entity's objectives, policies and processes for managing capital, the quantitative data relating to what the entity regards as capital, whether the entity has complied with capital requirements, and, if it has not complied, the consequences of such non-compliance.

   Since the standard came into effect, the Company has been presenting relevant information about capital management in the "Share capital" note.

3) Financial Instruments: Sections 3862 and 3863 place heightened importance on disclosure, enabling financial statement users to assess the nature and extent of the risks associated with the financial instruments to which the Company is exposed and the manner in which it manages these risks.

FINANCIAL INSTRUMENTS

Cash equivalents and temporary investments

The Company is exposed to various types of risks, including those related to the use of financial instruments. To manage the risks related to the use of financial instruments included in the various types of investments that make up cash equivalents and temporary investments, controls were put in place, particularly the cash and risk management policy. These measures aim primarily to optimize cash flow performance while reducing the main risks to which the Company is exposed, as described below.

Market Risk

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

Interest Rate Risk

Interest rate risk exists when interest rate fluctuations modify the cash flows of the Company's investments.

At March 31, 2008, if interest rates at that date had been 50 basis points lower and all other variables constant, after-tax net income and other comprehensive income for the period would have been $51,402 higher, arising mainly from an increase in the fair value of fixed rate financial assets classified as held for trading. If interest rates had been 50 basis points higher and all other variables constant, after-tax net income and other comprehensive income for the period would have been $51,026 lower, arising mainly from a decrease in the fair value of fixed rate financial assets classified as held for trading. Net income has a sensitivity similar to the interest rate decreases than to the increases because of investments with capped interest rates.

Credit Risk

The use of financial instruments can create a credit risk that is the risk of financial loss resulting from a counterparty's inability or refusal to fully discharge its contractual obligations. The Company's credit risk management policies include the authorization to carry out investment transactions with recognized financial institutions, with credit ratings of at least A and higher, in either bonds, money market funds or guaranteed investment certificates according to Standard and Poor's. Consequently, the Company manages credit risk by complying with the established investment policies. The Company establishes investment policies that are reviewed, regularly updated and approved. The policies define the credit risk limits based on the characteristics of the counterparties. The investments of the Company were all quoted by a recognized agency.

Concentration Risk

Concentration risk exists when investments are made with multiple entities that share similar characteristics or when a large investment is made with a single entity. As of March 31, 2008, the Company was holding more than 82% of its cash equivalents portfolio in a money market fund.

Liquidity Risk

Liquidity risk represents the possibility of the Company not being able to raise the funds needed to meet financial commitments at the appropriate time and under reasonable conditions. The Company manages this risk by maintaining permanent and sufficient liquidity to meet current and future financial obligations, under both normal and exceptional circumstances. The funding strategies used to manage this risk include turning to capital markets to carry out issues of equity and debt securities.

	MARCH 31	
	2008	2007
Commercial paper and bonds, maturing at various dates through January 2009 and having an average yield of 4.61 %	**$4,181,710**	**$ -**
Deposit certificates	**-**	7,002,388
Money market fund	**18,669,368**	19,173,895
	$22,851,078	$26,176,283
Distributed as follows :		
Cash equivalents	**$21,681,915**	$26,716,283
Temporary investments	**1,169,163**	-
	$22,851,078	$26,176,283

Cash equivalents are presented on the balance sheet under "Cash and cash equivalents." This item comprises $782,271 in cash and $21,681,915 in cash equivalents, for a total of $22,464,186 ($27,626,745 in 2007).

FINANCIAL INSTRUMENTS (CONT'D)

Foreign currency exchange rate risk
Foreign currency exchange risk exists when financial assets are denominated in foreign currency.

At March 31, 2008, if the Canadian dollar had weakened 10 percent against the U.S. dollar with all other variables held constant, after-tax net income and other comprehensive income for the period would have been $34,891 lower. Conversely, if the Canadian dollar had strengthened 10 percent against the U.S. dollar with all other variables held constant, after-tax net income and other comprehensive income would have been $34,891 higher.

SHARE CAPITAL

	2008		2007	
Issued and paid	**Number**		Number	
Balance at beginning	**47,863,402**	**$73,210,291**	36,800,853	$47,149,127
New issue	**-**	**-**	9,200,000	20,180,949
Options exercised	**-**	**-**	9,999	31,180
Warrants exercised	**-**	**-**	221,250	728,242
Balance at end	**47,863,402**	**$73,210,291**	46,232,102	$68,089,498

Other comprehensive income

According to Section 1530 "Comprehensive Income", the Company must present a Statement of Comprehensive Income. Given that the Company has classified all of its financial instruments as financial instruments held for trading, no change had to be recognized in comprehensive income. Consequently, the net loss is equal to total comprehensive income.

SHARE CAPITAL (CONT'D)

Capital management

The Company uses its capital to finance its research and development activities, its operating, administrative and marketing expenses, its working capital and its capital assets. Historically, the Company has financed its activities through rounds of public and private financing as well as by obtaining government grants.

According to its capacities and prevailing market conditions, the Company could finance, in whole or in part, its long-term assets through long-term debt.

With a monthly burn rate of approximately $880,000 as at March 31, 2008 ($430,000 as at March 31, 2007), the Company explains that the rate increase owes to the higher expenses required to commercialize its product.

The Company has a line of credit through which it can obtain advances up to a maximum of $350,000. To maintain this line of credit, the Company must respect certain ratios, i.e., its working capital ratio as well as the net value of its capital. Although the line of credit remains undrawn, the Company reviews these ratios every month. As at March 31, 2008, these ratios were met.

Each quarter, the Company reviews the loss-per-share ratio with the objective of improving this ratio. Over the years, this ratio has been maintained at a steady level.

Stock options and Warrants

As of March 5, 2008, the Company has granted 21,000 stock options to certain employees and directors. These options, which vests over three years, entitle the holder to subscribe to common share of the Company at a price of $2.38 until March 5, 2018. The fair value of stock options is $1.48 per share.

As of March 11, 2008, the Company has granted 70,000 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 $2.31 until March 11, 2018. The fair value of these stock options is $1.36 per share.

SHARE CAPITAL (CONT'D)

Stock options and Warrants (cont'd)

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:

	2008
Risk free interest rate	**3.59 %**
Expected volatility	**56.1 %**
Life	**10 year**
Expected dividend yield	**0 %**

The weighted average fair value of options granted is established at $1.39.

Stock options and Warrants varied as follows:

	MARCH 31, 2008	
	NUMBER	WEIGHTED AVERAGE EXERCISE PRICE
Stock options		
Outstanding at the beginning of period	**2,494,430**	**$2.18**
Granted	**91,000**	**2.33**
Exercised	**-**	**-**
Cancelled	**(55,934)**	**2.71**
	2,529,496	**$2.17**
Warrants		
Outstanding at the beginning of period	**5,060,000**	**$2.95**
Granted	**-**	**-**
Exercised	**-**	**-**
Expired	**-**	**-**
	5,060,000	**$2.95**
Oustanding at the end of period	**7,589,496**	**$2.70**
Exercible at the end of the period	**7,005,323**	**$2.70**

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