quarterly report

april may june

Q2 2008

TSO3

INDEX

MESSAGE FROM THE CHIEF EXECUTIVE OFFICER

TSO_3 REALIZES ITS HIGHEST QUARTERLY REVENUES

Dear Shareholders:

During the second quarter ended June 30, 2008, TSO_3 achieved its highest revenues for a one-quarter period (six units – three in Canada and three in the United States). These results indicate the Company has gained some traction with its revised strategy of re-focussing its marketing and sales resources. We are confident that the sales made during the second quarter represent the beginning of a more consistent sales trend for the Company.

This optimism is based on various tangible factors, the most important of which is the quality and competitive advantages of our technology. Additionally, in recent weeks we have implemented various commercial, operational and development initiatives that will strengthen our efficiency and performance. Through these initiatives, our objectives are to increase short and long-term sales; better align our technology to market needs; and make optimal use of our financial resources via efficiency gains and operating cost reductions.

Commercial development: several major achievements

Among the recent highlights on the commercial level, was the accreditation obtained by TSO_3 from the *U.S. General Services Administration*. This enables the Company to sell its sterilizer to some 225 U.S. Government healthcare facilities, in particular, hospitals and medical centres for military personnel, veterans and Native Americans. In addition to being a vote of confidence in our technology, this accreditation represents a promising new commercial opportunity that should impact our short and medium term sales.

This achievement is in line with our refocusing strategy announced June 5, 2008. In priority, this strategy targets select high-potential market segments for TSO_3, including North American hospitals and medical centres. As part of this strategy, we have been working with a specialized U.S. marketing firm to help us identify qualified potential clients. As a result, from now on our efforts will be directed to clients most likely to buy, which will help contribute toward improving the efficiency of our marketing activities; increasing the number of units sold; and reducing our sales cycle. We also anticipate that we will enter other potential market segments for TSO_3 in the United States, such as the medical equipment manufacturing sector that will offer potential multi-product buyers.

In other regions of the world, we intend to adopt an opportunistic approach and take advantage of eventual business development opportunities for the Company, notably for their ability to generate short-term revenues.

In addition, with the goal of driving interest in TSO_3's offering and easing the acquisition process, the Company has entered into an agreement with a U.S. firm specialized in medical equipment purchase financing. By taking advantage of this offer, the Company's clients will not have to pay out the full purchase price in one lump sum, yet they will be able to immediately begin benefiting from the operational savings generated by TSO_3's *125L* ozone sterilizer.

Furthermore, another important highlight in recent weeks is the U.S. registration of our new brand name “SteriZone®” (our *125L* ozone sterilizer). We expect this new simple and descriptive name to contribute toward increased product recognition and awareness in our target markets. We have also begun the steps required to register our new brand name in Canada.

R&D operational efficiency

With regard to our R&D operations, we have recently created a new R&D Director position and hired new personnel in this department. We are now equipped with a more complete team that has the expertise required to carry out the objectives of our technological development program and more proactively address market expectations. R&D is a priority for TSO_3. Our investments in this field will allow us to strengthen our future position as a technological leader in our business sector.

Furthermore, in recent months TSO_3 has been able to increase its operational performance and reduce its operating costs. This is in line with the objectives that we set early last May. As a result, our burn-rate will be reduced in the coming quarters, without impacting the business and technological development effectiveness. We now have an expense level that better reflects the Company’s current degree of development.

In order to ensure more efficient implementation and better resource allocation to manage all operations, we also recently appointed an Operations Director. This new position will allow Simon Robitaille, our Co-Founder, Vice-President and Chief Scientific Officer who previously had responsibility for operations, to exclusively focus his time and energy on carrying out new technological development programs – one of our main priorities and the cornerstone of our future success.

Today, we can affirm that TSO_3 is a more efficiently structured enterprise that is equipped with a refocused business plan and an R&D program that is more aligned to market needs. Backed by the support of all our team members, we are confident that the Company can reach its business objectives for the current fiscal year and successfully continue its long-term development.

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. 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 June 30 (unaudited)

	SECOND QUARTER		SIX MONTHS	
	2008	2007	**2008**	2007
SALES	**$1,037,180**	$575,253	**$1,128,327**	$773,876
EXPENSES				
Operating	**805,867**	492,750	**1,158,450**	814,784
Sales & marketing	**1,275,413**	1,085,907	**2,210,509**	1,984,136
Research and development	**612,186**	412,294	**1,084,630**	829,024
Administrative	**1,268,144**	775,558	**2,055,502**	1,577,445
Financial	**6,719**	3,335	**12,217**	6,706
	3,968,329	2,769,844	**6,521,308**	5,212,095
OPERATING LOSS	**2,931,149**	2,194,591	**5,392,981**	4,438,219
OTHER REVENUES	**203,917**	560,570	**505,417**	735,062
NET LOSS	**$2,727,232**	$1,634,021	**$4,887,564**	$3,703,157
BASIC AND DILUTED NET LOSS PER SHARE	**$0,05**	$0,04	**$0,10**	$0,09
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANTDING	**47,863,402**	46,243,702	**47,863,402**	42,814,930

OPERATING RESULTS

Three and six-month periods ended June 30, 2008, compared with the three and six month-periods ended June 30, 2007.

Sales

Sales for the three-month period ended June 30, 2008 amounted to $1,037,180 representing the sale of six sterilizers and related accessories, compared to $575,253 for the same period in 2007, representing the sale of three *125L* Ozone Sterilizer and related accessories. For the six-month period ended June 30, 2008, sales amounted to $1,128,327, representing also the sale of six sterilizers and related accessories, compared to $773,876, representing the sales of five sterilizers and related accessories for the corresponding period in 2007.

Operation

Operating expenses were $805,867 for the three-month period ending June 30, 2008, compared to $492,750 for the same period in 2007. Operating expenses are related to the Production and After-Sale Service Department as well as the costs of manufacturing the device. The variance between the two periods is explained by an increase in the cost of goods sold due to a superior number of devices sold, as well as by the addition, between the two periods, of three supplementary people in the Manufacturing and Production Department. The variance is also explained by the addition of three additional people in the After-Sale Service Department and by the increase of expenses related to warranties. For the six-month period ended June 30, 2008, Operating expenses amounted to $1,158,450 compared to $814,784 for the same period in 2007. The variance is also explained by an increase in the cost of goods sold, by adding supplementary people in the Manufacturing and Production Department and by the increase of expenses related to warranties.

Sales and Marketing

Sales and Marketing expenses amounted to $1,275,413 for the three-month period ended June 30, 2008 compared to $1,085,907 for the same period in 2007. The variance between the two periods is explained by an increase related to professional fees as well as severance payments due to a restructuring of the Sales Department. On the other hand, costs related to representation fees decreased between the two periods. For the six-month period, ended June 30, 2008, Sales and Marketing expenses amounted to $2,210,509 compared to $1,984,136 for the corresponding period in 2007. The variance is also explained by an increase in professional fees and severance payments.

Research and Development

For the three-month period ended June 30, 2008, R&D expenses before tax credits amounted to $612,186 compared to $412,294 for the same period in 2007. The variance between the two periods is explained by an increase related to salaries due to the intensification of R&D work. Indeed, eight supplementary people were added to this department between the two periods. The variance is also explained by an increase in expenses in work on the inactivation of prions. For the six-month period ended June 30, 2008, R&D expenses amounted to $1,084,630 compared to $829,024 for the corresponding period in 2007. The variance between the two periods is also explained by an increase related to salaries and expenses for prion testing.

OPERATING RESULTS (CONT'D)

Administrative

Administrative expenses amounted to $1,268,144 for the three-month period ended June 30, 2008 compared to $775,558 for the same period in 2007. The increase between the two periods is explained by a severance payment due to an administrative reorganization and by an increase in professional fees. For the six-month period ended June 30, 2006, Administrative expenses amounted to $2,055,502 compared to $1,577,445 for the corresponding period in 2007. The increase between the two periods is also explained by a severance payment as well as by an increase in professional fees.

Other Revenues

For the three-month period ended June 30, 2008, the Company realized other revenues of $203,917 compared to $560,570 for the same period in 2007. The variance between the two periods is explained by a decrease in investment revenues, grants and R&D tax credits. For the six-month period ended June 30, 2008, the Company realized other revenues of $505,417 compared to $725,062 for the corresponding period in 2007. The variance between the two periods is also explained by a decrease in investment revenues, grants and R&D tax credits.

Net Loss

The Company recorded a net loss of $2,727,232 or $0.05 per share for the second quarter of 2008, compared to a net loss of $1,634,021, or $0.04 per share for the same period in 2007. For the six-month period ended June 30, 2008, net loss amounted to $4,887,564 or $0,10 per share, compared to $3,703,157, or $0,09 per share for the same period in 2007.

SELECTED ELEMENTS

	JUNE 30		DECEMBER 31		
	2008	2007	2007	2006	2005
Cash, Cash equiv. and Temporary Investments	**$20,844,253**	$25,686,620	$26,205,174	$7,308,782	$14,595,003
Accounts Receivable	**$1,583,453**	$1,121,320	$975,011	$811,119	$344,302
Inventories	**$2,858,019**	$2,961,635	$2,996,409	$3,387,837	$3,303,258
Deferred Revenues	**$353,368**	$147,347	$145,878	$75,709	$961,826
Assets	**$29,765,568**	$34,098,080	$34,487,951	$15,743,739	$22,587,034
Share Capital and Contributed Surplus	**$80,877,857**	$76,292,476	$80,681,660	$52,148,977	$50,656,921
Shareholders' Equity	**$28,384,772**	$32,862,758	$33,041,196	$14,624,330	$20,609,717

Liquid Assets and Financial Situation

As of June 30, 2008, cash, cash equivalents and temporary investments amounted to $20,844,253 and accounts receivable to $1,583,453 for a total of $22,427,706 compared to $26,807,940 as of June 30, 2007.

Account Receivable

Accounts Receivable as of June 30, 2008, amounted to $1,583,453 compared to $1,121,320 for the same period in 2007. The difference between the two periods is due to an increase in the accounts receivable.

Deferred Revenues

Deferred Revenues as of June 30, 2008, amounted to $353,368 compared to an amount of $147,347 as of June 30, 2007. The item *Deferred Revenues* reflects financial transactions related 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.

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	2013
Operating leases and service contracts	**$89,185**	$61,333	$52,587	$8,610	$3,120	$260

SUMMARY OF QUARTERLY RESULTS

	2008		2007				2006		
($000 except loss/ share)	**Q2**	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Sales	**1,037**	91	676	281	575	199	434	34	301
Other Revenues	**203**	301	399	331	561	174	242	150	443
Net Loss	**2,728**	2,160	2,166	2,043	1,634	2,069	1,967	2,013	1,492
Net Loss per share (basic and diluted)	**0.05**	0.05	0.04	0.04	0.04	0.05	0.05	0.06	0.04

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 operating expenses, commercialisation fees, marketing expenses, R&D expenses, administrative 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.

CAPITAL RESOURCES (cont'd)

For the three-month period ended June 30, 2008, the monthly burn-rate was approximately $930,000, or a total of $2,790,000 for the quarter. Of this amount, approximately $600,000 are non-recurring expenses related to severance payments. In addition, the Company has recently set measures to decrease its cash burn rate. The coming quarters should demonstrate the impact of theses measures. 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 June 30, 2008, the number of outstanding shares was 47,863,402.

OFF-BALANCE SHEET TRANSACTION

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

TRANSACTIONS WITH RELATED PARTIES

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

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

	JUNE 31		DECEMBER 31	
	2008	2007	2007	2006
Rent	**$30,781**	$29,683	$59,365	$57,804
Other Rent-related Expenses	**38,932**	41,778	67,069	76,431
	$69,713	$71,461	$126,434	$134,235

As of June 30, 2008, an amount of $8,967 was included in accounts payable related to a related party (no amount 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 new accounting 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.

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

	JUNE 30	
	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 new accounting 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 markets 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. On June 5, 2008 the Company announced that it would be realigning resources and re-focusing marketing activities to enhance its rate of market penetration and sales growth for 2008 and beyond. These initiatives will also allow the Company to significantly reduce its operating expenses rate thanks to more efficient use of sales and marketing resources.

PERSPECTIVES (CONT'D)

These initiatives impact four areas: (1) A segmentation of the market targeting firstly North American hospitals; (2) A reorganization of the sales team to allow senior management to concentrate their efforts more effectively on qualified prospects ("poised purchaser"); (3) A reduction in the cash burn rate by the end of 2008; (4) A realignment of R&D programs to better address market needs and adding additional resources to accelerate the development of our competitive advantages.

In parallel, the sterilization equipment manufacturers must adjust to market demands and respond to new challenges notably the sterilization of flexible endoscopic instruments. This requires TSO_3 to accelerate the work necessary to guarantee the compatibility with this type of instruments.

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 20% 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.

As of June 30, 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 six-month period would have been $61,954 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 $61,954 higher.

RATE RISK AND SEGMENTED INFORMATION (CONT'D)

Operational Foreign Exchange Risk

For the second quarter of 2008, approximately 57% of the Company's sales were in Canadian dollars compared to 22% for the same period in 2007.

Segmented Information

Operating revenues according to geographic area are as follows:

	JUNE 30	
	2008	2007
Canada	**$640,965**	$172,356
United States	**487,362**	601,520
	$1,128,327	$773,876

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 included in the various types of investments that make up cash equivalents and temporary investments, controls were put in place, particularly those related to 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.

Cash Equivalents and Temporary Investments (cont'd)

Interest Rate Risk (cont'd)

As of June 30, 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 $44,741 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 $44,192 lower, arising mainly from a decrease in the fair value of fixed rate financial assets classified as held for trading.

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 established investment policies. The Company establishes investment policies that are reviewed, regularly updated and approved. These policies define the credit risk limits based on the characteristics of the counterparties. As of June 30, 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 June 30, 2008, the Company was holding more than 95% of its cash equivalents portfolio in money market funds.

RISK FACTORS (CONT'D)

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 of the controls and procedures regarding information disclosure and have concluded that these controls and procedures are effective.

PROSPECTIVE STATEMENT

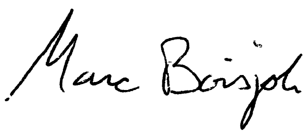
This document contains certain prospective statements that reflect the Company's current expectations concerning future activities. These prospective statements include risks and uncertainties. Actual results can differ considerably from the results, as previously described in this report, expected by 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.

PROSPECTIVE STATEMENT (CONT'D)

This Management Report has been prepared as of July 30, 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

July 30, 2008

QUARTERLY FINANCIAL STATEMENTS

The Quarterly Financial Statements have not been reviewed by External Auditors

STATEMENT OF EARNINGS
Periods ended June 30 (unaudited)

	SECOND QUARTER		SIX MONTHS	
	2008	2007	**2008**	2007
SALES	**$1,037,180**	$575,253	**$1,128,327**	$773, 876
EXPENSES				
Operating	**805,867**	492,750	**1,158,450**	814,784
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NET LOSS	**$2,727,232**	$1,634,021	**$4,887,564**	$3,703,157

EARNINGS PER SHARE

	SECOND QUARTER		SIX MONTHS	
	2008	2007	**2008**	2007
NET LOSS PER SHARE	**$2,727,232**	$1,634,021	**$4,887,564**	$3,703,157
NUMBER OF SHARES				
Weighted average number of outstanding shares (1)	**47,863,402**	46,243,702	**47,863,402**	42,814,930
LOSS PER SHARE				
Basic	**$0.05**	$0.04	**$0.10**	$0.09
Diluted	**$0.05**	$0.04	**$0.10**	$0.09

(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	
	2008	2007	**2008**	2007
Balance, beginning of period	**$7,561,620**	$8,013,643	**$7,471,369**	$4,999,850
Options exercised	**-**	(13,176)	**-**	(27,063)
Warrants exercises	**-**	-	**-**	(234,246)
Warrants related to the financing	**-**	-	**-**	2,819,051
Compensation Options	**-**	-	**-**	281,520
Stock-based Compensation	**105,946**	171,334	**196,197**	332,689
Balance, end of period	**$7,667,566**	$8,171,801	**$7,667,566**	$8,171,801

STATEMENTS OF DEFICIT
Periods ended June 30 (unaudited)

	SECOND QUARTER		SIX MONTHS	
	2008	2007	**2008**	2007
Balance, beginning of period	**$49,765,853**	$41,777,439	**$47,640,464**	$37,524,647
Change in accounting policies	**-**	-	**(34,943)**	(20,216)
Restated deficit	**$49,765,853**	$41,777,439	**$47,605,521**	$37,504,431
Share issue expenses	**-**	18,258	**-**	1,940,610
Compensation Options	**-**	-	**-**	281,520
Net loss	**$2,727,232**	$1,634,021	**$4,887,564**	$3,703,157
Balance, end of period	**$52,493,085**	$43,429,718	**$52,493,085**	$43,429,718

BALANCE SHEET as of

	June 30, 2008 (unaudited)	December 31 2007 (audited)	June 30, 2007 (unaudited)
CURRENT ASSETS			
Cash and cash equivalents	**$18,154,275**	$22,081,727	$21,673,653
Temporary investments	**2,689,978**	4,123,447	4,012,967
Accounts receivable	**1,583,453**	975,011	1,121,320
Inventories	**2,858,019**	2,996,409	2,961,635
Prepaid expenses	**137,150**	139,410	125,979
	25,422,875	30,316,004	29,895,554
PROPERTY, PLANT AND EQUIPMENT	**778,752**	508,118	518,331
INTANGIBLE ASSETS	**3,563,941**	3,663,829	3,684,195
	$29,765,568	$34,487,951	$34,098,080
CURRENT LIABILITIES			
Accounts payable and accrued liabilities	**$1,027,428**	$1,300,877	$1,087,975
Deferred revenues	**353,368**	145,878	147,347
	1,380,796	1,446,755	1,235,322
SHAREHOLDERS' EQUITY			
Share capital	**73,210,291**	73,210,291	68,120,675
Contributed surplus	**7,667,566**	7,471,369	8,171,801
Deficit	**(52,493,085)**	(47,640,464)	(43,429,718)
	28,384,772	33,041,196	32,862,758
	$29,765,568	$34,487,951	$34,098,080

STATEMENTS OF CASH FLOWS
Periods ended June 30 (unaudited)

	SECOND QUARTER		SIX MONTHS	
	2008	2007	**2008**	2007
OPERATING ACTIVITIES				
Net loss	**($2,727,232)**	($1,634,021)	($4,887,564)	($3,703,157)
Adjustment for :				
Amortization of property, plant and equipment	**48,603**	34, 579	**88,708**	67,834
Amortization of intangible assets	**58,750**	56, 825	**117,356**	112,577
Change in the value of temporary investments	**(21,269)**	-	**(79,532)**	-
Stock-based compensation	**105 946**	171, 334	**196,197**	332,689
Gain on disposal of property, plant and equipment	**229**	457	**(8,124)**	457
	($2,534,973)	($1,370,826)	**($4,572,959)**	($3,189,600)
Changes in non-cash operating working items	**(133,139)**	(497,527)	**(533,751)**	239,586
Impact of new standards	**-**	-	**34,943**	-
Cash flows used in operating activities	**(2,668,112)**	(1,868,353)	**(5,071,767)**	(2,950,014)
INVESTING ACTIVITIES				
Acquisiton of temporary investments	**(1,503,000)**	(11,012,967)	**(1,503,000)**	(11,012,967)
Disposal of temporary investments	**3,454**	7,000,000	**3,016,001**	7,000,000
Acquisition of property, plant and equipment	**(131,269)**	(16,535)	**(359,646)**	(196,014)
Acquisition of intangible assets	**(11,059)**	(54,979)	**(17,468)**	(85,030)
Disposal of property, plant and equipment	**75**	-	**8,428**	-
Cash flows used in investing activities	**(1,641,799)**	(4,084,481)	**1,144,315**	(4,294,011)
FINANCING ACTIVITIES				
Options exercised	**-**	18,000	**-**	40,505
Warrants exercised	**-**	-		488,725
Share issue expenses	**-**	(18,258)	**-**	(1,940,610)
Share issue	**-**	-	**-**	23,000,00
Cash flows used in financing activities	**-**	(258)	**-**	21,588,680
INCREASE IN CASH AND CASH EQUIVALENTS	**(4,309,911)**	(5,953,092)	**(3,927,452)**	14,344,655
Cash and cash equivalents at beginning	**22,464,186**	27,626,745	**22,081,727**	7,328,998
CASH AND CASH EQUIVALENTS AT THE END	**$18,154,275**	$21,673,653	**$18,154,275**	$21,673,653
Comprised of :				
Cash	**$18,154,275**	$21,673,653	**$18,154,275**	$21,673,653
Temporary investments less than three months	**-**			
Temporary investments more than three months	**2,689,978**	4,012,967	**2,689,978**	4,012,967
CASH, CASH EQUIVALENTS AND TEMPORARY INVESTMENTS	**$20,844,253**	$25,686,620	**$20,844,253**	$25,686,620

The accompanying notes are in integral part of the financial statements

Critical Accounting Policies

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

	JUNE 30	
	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 these risks included in the various types of investments that make up cash equivalents and temporary investments, controls were put in place, particularly those related to 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.

As of June 30, 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 six-month period would have been $44,741 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 sxi-month period would have been $44,192 lower, arising mainly from a decrease in the fair value of fixed rate financial assets classified as held for trading.

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 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 June 30, 2008, the Company was holding more than 95% 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.

	JUNE 30	
	2008	2007
Commercial paper and bonds, maturing at various dates through January 2009 and having an average yield of 4.04 %	**$2,689,978**	$4,012,967
Money market funds	**16,814,471**	19,345,186
	$29,504,449	$23,358,153
Distributed as follows :		
Cash equivalents	**$16,814,471**	$19,345,186
Temporary investments	**2,689,978**	4,012,967
	$19,504,449	$23,358,153

Cash equivalents are presented on the balance sheet under "Cash and cash equivalents." This item comprises $1,339,804 in cash and $16,814,471 in cash equivalents, for a total of $18,154,275 ($21,673,653 in 2007).

FINANCIAL INSTRUMENTS (CONT'D)

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

As of June 30, 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 six-month period would have been $61,954 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 $61,954 higher.

SHARE CAPITAL

	JUNE 30			
	2008		2007	
	Number		Number	
Issued and paid				
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	**-**	**-**	21,999	62,357
Warrants exercised	**-**	**-**	221,250	728,242
Balance at end	**47,863,402**	**$73,210,291**	46,244,102	$68,120,675

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.

For the three-month period ended June 30, 2008, the monthly burn-rate was approximately $930,000, or a total of $2,790,000 for the second quarter. Of this amount, approximately $600,000 are non-recurring expenses related to severance payments. The Company explains the increase of this rate by the increase of expenses required for the marketing of its product. The Company also set measures to decrease its rate of absorption of liquid assets.

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 of June 30, 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 directors. These options, which vest over three years, entitle the holder to subscribe to common shares 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. These options, which vest over three years, entitle the holder to subscribe to common shares 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.

As of April 30, 2008, the Company has granted 100,000 stock options to one manager. These options entitle the holder to subscribe to common shares of the Company at a price of $0.94 until April 30, 2013. The fair value of stock options is $0.38 per share.

SHARE CAPITAL (CONT'D)

Stock options and Warrants (cont'd)

As of May 1, 2008, the Company has granted 60,000 stock options to one manager. These options entitle the holder to subscribe to common shares of the Company at a price of $1.08 until May 1, 2013. The fair value of stock options is $0.60 per share.

As of May 1, 2008, the Company has granted 14,000 stock options to certain directors. These options, which vest over three years, entitle the holder to subscribe to common shares of the Company at a price of $1.08 until May 1, 2018. The fair value of stock options is $0.78 per share.

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	**3.23 %**
Expected volatility	**59.3 %**
Life	**7 Years**
Expected dividend yield	**0 %**

The weighted average fair value of options granted is established at $0.80.

SHARE CAPITAL (CONT'D)

Stock options and Warrants varied as follows:

	JUNE 30, 2008	
	NUMBER	**WEIGHTED AVERAGE EXERCISE PRICE**
Stock options		
Outstanding at the beginning of six-month period	**2,494,430**	**$2.18**
Granted	**265,000**	**1.45**
Exercised	**-**	**-**
Cancelled	**(175,169)**	**2.58**
	2,584,261	**$2.08**
Warrants		
Outstanding at the beginning of six-month period	**5,060,000**	**$2.95**
Granted	**-**	**-**
Exercised	**-**	**-**
Expired	**-**	**-**
	5,060,000	**$2.95**
Oustanding at the end of period	**7,644,261**	**$2.66**
Exercible at the end of the period	**7,042,912**	**$2.70**

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