quarterly report

april may june

Q2 2009

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MESSAGE FROM THE CHIEF EXECUTIVE OFFICER

FOCUSED ON INCREASING VALUE

Dear Shareholders,

During the past 12 months, as we have outlined in previous communications, TSO_3 has initiated a number of value creating projects which we believe will result in mid and short-term successes for the Company. We have defined clear objectives such as increasing the overall utility of the product, increasing the available market and adjusting our commercial approach for improved efficiency. In second quarter, progress was made in each of these areas which is outlined below.

For the quarter ended June 30, 2009, the Company posted revenues of $510,626, compared to $1,037,180 for the same period in prior year. Year to date revenue for 2009 is $1,044,114 compared to $1,128,327 for the same period in 2008. We believe it will take a few additional quarters before we see appreciable increases in product delivered. This is due to the length of the sales cycle and short term delays owing to the current North American economy.

In the meantime, we continue to experience an increase in the amount of quoting activity and continue to develop traction required to break into the double digit unit shipments by quarter performance level. Again, we anticipate that it will take a few additional quarters to achieve this sales level, but we are confident in our approach.

Value Creating Projects

The main objective of our business strategy is to expand the use of our valuable technology by increasing the number and type of instruments that can be sterilized with our technology. We have already obtained and announced Health Canada's authorization to use the TSO_3 STERIZONE® 125L Sterilizer, for packaged, multi-channel flexible endoscopes, and are now in the iterative process of questions and answers with the American regulatory authority for their clearance in the United States. In addition, during second quarter 2009, TSO_3 successfully completed ISO 13485 Conformity Assessment Verification, attesting to the consistency of its procedures.

On another front, we stated at our Annual General Meeting that we would pursue development of additional cycles that could be added to our existing sterilizer. To that end we are testing a new and "gentler" sterilization cycle, so that more sensitive devices can be processed, with minimal compatibility concerns. Our results in this area have been very rewarding and should lead to a commercial event in Canada this year.

Unparalleled Industry Customer Support

In parallel to our product improvement initiatives, we have formalized our promise to customers insuring that they will continue to benefit from our current and future innovations in technology. This is supported by a new and unique *Elite Program*, committing to our customers that, by investing in our technology today, they will always have a “State of the Art” product, meeting the evolving needs in sterilization.

Prion Testing Update

In the previous quarter of the year, TSO_3 outlined progress made specific to its technology and its ability to reduce or eliminate the transmission of Prion associated diseases, such as Creutzfeldt-Jakob Disease (CJD). The data obtained through this program has been submitted for peer review to insure scientific integrity and should lead to a final report from the UK Health Protection Agency.

The science underway intends to provide data which independent authorities may decide to act on as per their urgency to bring a solution to Prion transmission.

Global Scale Medical Device and Sterilization Expertise

At the same time TSO_3 is dedicating efforts at enhancing its product utility, the Company announced the appointment of Dr. James R. Husman to its Board of Directors. Recently retired from 3M, he has over 30 years experience in basic research and product development on a global level. Dr. Husman provides additional depth to TSO_3’s Board of Directors, bringing to the table a global scale expertise in medical instrumentation and sterilization.

Working the Plan and Planning the Work

It is clear that our R&D efforts and progress made in this area have opened up additional opportunities for our Company. To assure TSO_3 will be able to quickly take advantage of these successes, we have initiated pursuit of the CE marking, which will increase the available market for the existing technology. As previously mentioned, TSO_3 believes that opportunities exist to establish channel partners as a means to accelerate the technologies adoption on a regional and global level. During second quarter 2009, discussions started with a number of organizations concerning possible strategic partner opportunities. We expect that these discussions will continue through year end, with the intent of securing channel partners in targeted markets for a 2010 introduction.

Our Vision Statement is to “Create the Improved Standard in Healthcare Sterilization”. Our use of an efficacious, cost effective, safe and green technology enables the pursuit of such a Vision, while precise objectives within predetermined deadlines, will lead to our success.

R.M. (Ric) Rumble
President and CEO

INTRODUCTORY COMMENTS

The Management, Discussion and Analysis ("MD&A") should be read in conjunction with the quarterly financial statements and accompanying notes as well as the annual audited financial statements, accompanying notes and the MD&A of the Corporation's most recent annual report. The quarterly financial statements and the MD&A have been reviewed by the Audit and Corporate Governance Committee of TSO_3 and approved by its Board of Directors. The quarterly financial statements have not been subject to an external audit.

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 technologic platform, the TSO_3 STERIZONE® 125L 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 TSO_3 STERIZONE® 125L Sterilizer and the accompanying Chemical Indicator on September 3, 2003.

INTERNAL SALES FORCE

The Company relies on a direct sales force to support the commercial sales strategy. The TSO_3 direct sales force, located predominantly in the United States, have extensive experience selling capital equipment to both operating rooms and central sterilization departments in hospitals.

SUMMARY OF OPERATING RESULTS

Periods ended June 30, 2009 (Unaudited)

	SECOND QUARTER		SIX MONTHS	
	2009	2008	**2009**	2008
SALES	**$510,626**	$1,037,180	**$1,044,114**	$1,128,327
EXPENSES				
Operating	**576,719**	789,078	**1,170,992**	1,160,062
Sales & Marketing	**644,068**	1,268,987	**1,255,621**	2,194,762
Research & Development	**775,099**	763,573	**1,514,155**	1,236,017
Administrative	**826,848**	1,139,972	**1,522,676**	1 918,250
Financial	**5,591**	6,719	**9,899**	12,217
	2,828,325	3,968,329	**5,473,343**	6,521,308
OPERATING LOSS	**2,317,699**	2,931,149	**4,429 229**	5,392,981
Other Revenues	**54,236**	203,917	**178,422**	505,417
NET LOSS AND COMPREHENSIVE LOSS	**$2,263,463**	$2,727,232	**$4,250,807**	$4,887,564
BASIC AND DILUTED NET LOSS PER SHARE	**$0.05**	$0.05	**$0.09**	$0.10
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	**47,863,402**	47,863,402	**47,863,402**	47,863,402

OPERATING RESULTS ANALYSIS

Three and six-month periods ended June 30, 2009, compared to the three and six-month periods ended June 30, 2008.

Sales

Sales for the three-month period ended June 30, 2009 amounted to $510,626 representing the sale of two sterilizers and related accessories compared to $1,037,180 for the same period in 2008 representing the sale of six sterilizers and related accessories. For the six-month period ended June 30, 2008, sales amounted to $1,044,114 representing the sales of five sterilizers and related accessories compared to $1,128,327, representing the sales of six sterilizers and related accessories for the corresponding period in 2008.

OPERATING RESULTS ANALYSIS (cont'd)

Operating

For the three-month period ended June 30, 2009 operating expenses were $576,719 compared to $789,078 for the same period in 2008. Operating expenses are related to production, manufacturing and after-sales service departments. The variance between the two periods is the result of a decrease in the cost of goods sold. Conversely, expenses related to salaries, installation fees and expenses related to service contracts increased between the two periods. For the six-month periods ended June 30, 2009, operating expenses amounted to $1,170,992 compared to $1,160,062 for the same period in 2008. The variance between the two periods is explained by an increase in salaries, installation fees and expenses related to service contracts. Warranty fees decreased between the two periods.

Sales and Marketing

Sales and Marketing expenses amounted to $644,068 for the three-month period ended June 30, 2009 compared to $1,268,987 for the same period in 2008. The variance between the two periods is due to a decrease in salaries and representation fees related to a reduction in the number of regional sale managers and commissions paid. For the six-month period ended June 30, 2009, Sales and Marketing expenses amounted to $1,255,621 compared to $2,194,762 for the same period in 2008. The variance between the two periods is also due to a decrease in salaries, representation fees and commissions paid.

Research and Development

For the second quarter of 2009, Research and Development expenses were similar as 2008. For the three-month period ended June 30, 2009, Research & Development expenses before tax credits amounted to $775,099 compared to $763,573 for the same period in 2008. For the six-month period ended June 30, 2009, R&D expenses amounted to $1,514,155 compared to $1,236,017 for the same period in 2008. The variance between the two periods is due to an increase in the purchases of materials and instruments as well as subcontracting expenses related to compatibility tests. The variance is also explained by an increase in salary costs resulting from the addition of employees to the R&D Department. Expenses related to the scientific advisors decreased.

OPERATING RESULTS ANALYSIS (cont'd)

Administration

Administrative expenses amounted to $826,848 for the three-month period ended June 30, 2009 compared to $1,139,972 for the same period in 2008. The variance between the two periods is explained by a decrease in exceptional charges. In the second quarter of 2008, the Company proceeded to severance payments. The variance is also explained by a decrease of professional expenses, expenses related to the item *Stock-based Compensation*, insurance fees as well as taxes on capital. Conversely, payroll charges increased between the two periods. For the six-month period ended June 30, 2009, administrative expenses amounted to $1,522,676 compared to $1,918,250 for the corresponding period in 2008. The variance between the two periods is also explained by a decrease of professional fees, expenses related to the item *Stock-based Compensation*, insurance fees as well as taxes on capital. Conversely, payroll charges also increased between the two periods.

Other Revenues

For the three month period ended June 30, 2009, the Company realized other revenues of $54,236 compared to $203,917 for the same period in 2008. The variance between the two periods is due to a decrease in investment revenues as well as an increase in exchange loss. Conversely, R&D tax credits increased between the two periods. For the six month period ended June 30, 2009, the Company realized other revenues of $178,422 compared to $505,417 for the corresponding period in 2008. The variance is also explained by a decrease in investment revenues as well as an increase in exchange loss. Conversely, R&D tax credits increased between the two periods.

Net Loss

The Company recorded a net loss of $2,263,463 for the second quarter of 2009, or $0.05 per share compared to a net loss of $2,727,232 $ for the same period in 2008, or also $0.05 per share. For the six-month period ended June 30, 2009, net loss amounted to $4,250,807, or $0.09 per share, compared to $4,887,564, or $0.10 per share for the corresponding period in 2008.

FINANCIAL SITUATION ANALYSIS

	JUNE 30 (Unaudited)		DECEMBER 31 (Audited)		
	2009	2008	2008	2007	2006
Cash, Cash equivalents and Temporary investments	**$13,740,386**	$20,844,253	$17,878,210	$26,205,174	$7,308,782
Accounts Receivable	**$1,184,546**	1,583,453	$660,578	$975,011	$811,119
Inventories	**$2,042,951**	$2,858,019	$2,548,075	$2,996,409	$3,387,837
Assets	**$21,581,924**	$29,765,568	$25,519,647	$34,487,951	$15,743,739
Deferred Revenues	**$629,964**	$353,368	$388,958	$145,878	$75,709
Share Capital and Contributed Surplus	**$81,233,217**	$80,877,857	$81,111,234	$80,681,660	$52,148,977
Shareholder's Equity	**$19,743,085**	$28,384,772	$23,871,909	$33,041,196	$14,624,330

Liquid Assets and Financial Situation

As of June 30, 2009, cash, cash equivalents and temporary investments amounted to $13,740,386 and accounts receivable to $1,184,546 for a total of $14,924,932 compared to a total amount of $22,427,706 as of June 30, 2008.

Accounts Receivable

Accounts receivable, as of June 30, 2009, amounted to $1,184,546 compared to a total amount of $1,583,453 for the same period in 2008. The variance between the two periods is explained by the collection of accounts receivable.

Inventories

Inventories, as of June 30, 2009, amounted to $2,042,951 compared to a total amount of $2,858,019 for the corresponding period in 2008. The variance is explained by a decrease in the inventory of sterilizers resulting from the sale of devices between the two periods and also from the transfer of materials to the R&D Department to accelerate the work TSO_3 has been conducting on compatibility of medical devices.

FINANCIAL SITUATION ANALYSIS (cont'd)

Deferred Revenues

Deferred Revenues, as of June 30, 2009, amounted to $629,964 compared to $353,368 as of June 30, 2008. 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 related to service contracts.

CONTRACTUAL COMMITMENTS

As of June 30, 2009, the contractual commitments in the coming fiscal years are as follows:

	2009	2010	2011	2012	2013
Operating leases and service contracts	**$256,273**	$250,454	$25,515	$15,538	$1,220

SUMMARY OF QUARTERLY RESULTS
(Unaudited)

	2009		2008				2007		
($000 except loss/share)	**Q2**	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Sales	**511**	533	382	725	1,037	91	676	281	575
Other Revenues	**54**	124	247	204	203	301	399	331	561
Net Loss	**2,263**	1,987	2,898	1,848	2,728	2,160	2,166	2,043	1,634
Net Loss per share (basic and diluted)	**0.05**	0.04	0.06	0.04	0.05	0.05	0.04	0.04	0.04

This table shows the quarterly evolution of sales and other income as well as losses. Non-recurring expenses associated with reorganizations that took place during the year 2008 accounted for $0.02 per share, one cent in each of Q2 and Q4. Excluding these exceptional charges, the net loss per share has remained stable over the past nine quarters.

CAPITAL RESOURCES

The Company principally uses its capital to finance 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.

For the three-month period ended June 30, 2009, the monthly burn-rate was approximately $675,000. Under the current conditions, the Company believes that its current liquid assets are sufficient to finance its activities through 2010.

The Company has a line of credit to obtain advances up to a maximum of $350,000. As of June 30, 2009, this line of credit has not been utilized.

The Company invests its liquidities in money market funds or 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 their quality, 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, 2009, 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 of 2009.

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 2009 and 2008 and the last two complete fiscal years, the Company has made the following transactions with this related party:

	JUNE 30		DECEMBER 31	
	2009	2008	2008	2007
Rent	**$31,396**	$30,781	$61,561	$59,365
Other Rent-related Expenses	**46,174**	38,932	71,138	67,069
	$77,570	$69,713	$132,699	$126,434

These operations took place in the normal course of business and were measured at the exchange value, which is the amount of the consideration established and accepted between the Corporation and this related party. As of June 30, 2009, no amount was included in accounts payable for transactions made with this related company compared to $8,967 in 2008.

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 of fair value of goodwill and intangible assets. Some of our critical accounting policies required the use of judgment in their application of require estimates of inherently uncertain matters.

Estimation and Principal Accounting Policies

There has been no change to estimation and accounting policies since December 31, 2008, 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 2008 Annual report available on the SEDAR website www.sedar.com.

Impact of Adopting New Accounting Standards

In February 2008, the CICA issued a new Section 3064, "Goodwill and Intangible Assets" which replaced Section 3062 "Goodwill and Other Intangible Assets" as well as Section 3450 "Research and Development Costs." The new Section 3064 states that upon initial identification, intangible assets are to be recognized as assets only if they meet the definition of an intangible asset and the asset recognition criteria. Section 3064 also provides further information on the recognition of internally generated intangible assets (including research and development costs). As for subsequent measurement of intangible assets, goodwill and disclosure, Section 3064 essentially carries forward unchanged the recommendations of former Section 3062. This section applies to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2009. The adoption of this new section does not have a significant impact on the Company's financial statements.

Future Accounting Changes

In February 2008, the Canadian Accounting Standards Board confirmed that publicly-accountable enterprises would be required to use International Financial Reporting Standards (IFRS) in the preparation of financial statements for fiscal years beginning on or after January 1, 2011. In the Company's case, the use of IFRS will be required for the interim and annual financial statements dated after January 1, 2011 with comparative statements restated under IFRS. During the financial period, ending on December 31, 2008, the Company developed an IFRS changeover plan. This plan is comprised of three separate phases:

Phase I

Completed during the last fiscal year, a diagnostic design that would identify the main conversion issues for the Company and potential impact.

Phase II

Should be completed by December 31, 2009. The purpose of this phase is to analyze, calculate the impact of and select the different accounting policies to adopt for the IFRS changeover. During this phase, the Company will put in place internal processes and policies to collect and compile the required information for the IFRS changeover.

Future Accounting Changes (cont'd)

Phase III

Should be completed by March 31, 2011. The purpose of this phase is to prepare the opening balance sheets, financial statements (current and comparative period), conciliation notes and the supplementary notes required for the IFRS and its initial adoption.

Further to the work completed, management created a summary list of potential consequences to the Company of the IFRS changeover:

- **Accounting policies**: According to the Company's management, the IFRS will have little impact on the accounting policies of the Company because these policies are currently consistent with the IFRS. According to the Company's management, the biggest impact of the IFRS changeover on the Company should be at the level of supplementary information as disclosed in the notes of the Financial Statements and at the level of accounting terminology used. The IFRS could have a moderate impact on the recognition and presentation of financial instruments and shareholder's equity in the Company.

- **Information technology (IT)**: Company management believes that the IFRS changeover will have a limited impact on internal controls and procedures because they are currently able to produce complete and reliable financial and non financial information for management in accordance with the IFRS.

- **Control mechanisms and internal procedures:** Company management estimates that the adoption of the IFRS will have a limited impact on mechanisms of control and internal procedures because the majority of these procedures and mechanisms currently allow the management to obtain exhaustive and reliable information to present financial and non-financial information in accordance with the IFRS.

- **Financial information expertise**: Company management ensures that employees receive the necessary training related to IFRS, either from an external firm or professional organization.

- **Commercial activities**: Company management believes that IFRS should not have material impact on the Company's commercial activities.

Future management reports will provide updates on the IFRS plan and on recommend changes, if any.

LIQUITIDY 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 competes in an industry characterized by both multinational and regional companies that market low temperature sterilization technologies. The most commonly utilized technologies today use Ethylene Oxide Gas, Hydrogen Peroxide Vapour, Liquid Peroxides and Ozone as the primary sterilizing agent. Low temperature sterilization is performed in three distinct areas within acute care hospitals. These areas include the Central Sterilization Department, Operating Room Sterile Processing areas, and Gastrointestinal (GI) Departments. The Company's primary target market for its first product, the TSO_3 STERIZONE® Sterilization System, is the Central Sterilization Department found in acute care hospitals. This targeted customer group, by nature, is conservative so sales cycles can be long as a result of administrative and budgeting procedures. These customers demand a low temperature sterilization process that is compatible, cost effective and environmentally sound and safe. Prior to the introduction of the TSO_3 STERIZONE® Sterilization System, no single competitor or technology had been able to meet these customer requirements. As a result, end-users had to employ multiple products and technologies to meet their sterilization needs. To address this issue, the Company entered the market with a proprietary sterilization process that provided unmatched efficacy, economy and safety.

PERSPECTIVES (cont'd)

On March 10, 2009, the Company filed with the US FDA and to Health Canada for enhanced claims which, when cleared, will increase the indications for use, offering customers increased product utility further lowering their operating costs. On March 31, 2009, the Company received the approval of Health Canada. The Company believes that its patented technology can be used to create a number of additional cycles, each having the superior efficacy of the existing product while tuning the cycle to optimize compatibility with today's increasingly delicate diagnostic and surgical instruments. The Company expects that many of these cycles will be configured as part of the current product as well as completely new cycles that address different requirements for different locations in the hospital. As such the Company is focusing on delivering increased value to the central sterilization department while developing new equipment targeting on the needs of the Operating Room.

SEGMENTED INFORMATION

Operating revenues according to geographic area, for the three and six-month periods ended June 30, are as follows:

	SECOND QUARTER				**SIX MONTH**			
	2009		2008		**2009**		2008	
Canada	**$57,284**	**11%**	$575,029	55%	**$215, 476**	**21%**	$640,965	57%
USA	**453,342**	**89%**	462,151	45%	**828, 638**	**79%**	487,362	43%
	$510,626	**100%**	$1,037,180	100%	**$1,044,114**	**100%**	$1,128,327	100%

RISK FACTORS

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 Canada, primarily in the United States. 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 impact 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. Conversely, the Company can not guarantee the success of its different research and development 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 negative impact on TSO_3. The Management expects to review the Succession Plan in 2009 of all senior level management.

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 financial resources and marketing capabilities greater 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 risks, including the risks related to holding financial instruments. To manage the risk related to the use of financial instruments contained in the various investments that make up cash equivalents and temporary investments, controls have been implemented, in particular the cash and risk management procedures. These measures aim primarily to minimize default risk while optimizing returns from cash flow while reducing the Company's main risk exposures, which are 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, 2009, if interest rates at that date had been 50 basis points lower and all other variables constant, the net loss, for the six-month period, would have been $5,306 lower, 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, the net loss, for the six-month period, would have been $5,263 higher, arising mainly from a decrease in the fair value of fixed rate financial assets classified as held for trading. Net loss has sensitivity similar to the interest rate decrease than to the increase because of investments with capped interest rates.

Credit Risk

The use of financial instruments can create a credit risk in which there is a risk of financial loss resulting from a counterparty's inability or refusal to fully meet its contractual obligations. The Company's credit risk management procedures include the authorization to perform investment transactions with recognized financial institutions, either in bonds, money market funds or guaranteed investment certificates. Therefore, the Company manages credit risk by complying with the established investment procedures.

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, 2009, the risk was considered low by the Company.

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. The Company can not guarantee that it will be able to put in place such financing.

Currency risk

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

At June 30, 2009, if the Canadian dollar had weakened 10 percent against the US dollar with all other variables held constant, the net loss, for the six-month period, would have been $82,916 lower. Conversely, if the Canadian dollar had strengthened 10 percent against the US dollar with all other variables held constant, the net loss, for the six-month period, would have been $82,916 higher.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

No material changes were made to internal controls over financial reporting in the second quarter of fiscal 2009.

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, Discussion and Analysis has been prepared as of July 29, 2009. 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.

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

July 29, 2009

TSO_3 inc.

QUARTERLY FINANCIAL STATEMENTS
June 30, 2009

Q2

Notice from Management

The quarterly financial statements have not been subject to an external audit.

STATEMENTS OF EARNINGS AND COMPRENSIVE LOSS (Unaudited)
Periods ended June 30

	SECOND QUARTER		SIX MONTHS	
	2009	2008	**2009**	2008
SALES	**$510,626**	$1,037,180	**$1,044,114**	$1,128,327
EXPENSES				
Operating	**576,719**	789,078	**1,170,992**	1,160,062
Sales and Marketing	**644,068**	1,268,987	**1,255,621**	2,194,762
Research and Development	**775,099**	763,573	**1,514,155**	1,236,017
Administrative	**826,848**	1,139,972	**1,522,676**	1,918,250
Financial	**5,591**	6,719	**9,899**	12,217
	2,828,325	3,968,329	**5,473,343**	6,521,308
OPERATING LOSS	**2,317,699**	2,931,149	**4,429,229**	5,392,981
Other Revenues	**54,236**	203,917	**178,422**	505,417
NET LOSS AND COMPREHENSIVE LOSS	**$2,263,463**	$2,727,232	**$4,250,807**	$4,887,564
BASIC AND DILUTED NET LOSS PER SHARE (NOTE 8)	**$0.05**	$0.05	**$0.09**	$0.10

The accompanying notes are an integral part of quarterly financial statements.

STATEMENTS OF CONTRIBUTED SURPLUS (Unaudited)
Periods ended June 30

	SECOND QUARTER		SIX MONTHS	
	2009	2008	**2009**	2008
Balance, beginning of period	**$7,956,899**	$7,561,620	**$7,900,943**	$7,471,369
Stock-based Compensation	**66,027**	105,946	**121,983**	196,197
Balance, end of period	**$8,022,926**	$7,667,566	**$8,022,926**	$7,667,566

STATEMENTS OF DEFICIT (Unaudited)
Periods ended June 30

	SECOND QUARTER		SIX MONTHS	
	2009	2008	**2009**	2008
Balance, beginning of period	**$59,226,669**	$49,765,853	**$57,239,325**	$47,640,464
Change in accounting policies (Note 3)	**-**	-	**-**	(34,943)
Restated Deficit	**59,226,669**	49,765,853	**57,239,325**	47,605,521
Net Loss	**2,263,463**	2,727,232	**4,250,807**	4,887,564
Balance, end of period	**$61,490,132**	$52,493,085	**$61,490,132**	$52,493,085

The accompanying notes are an integral part of quarterly financial statements.

BALANCE SHEETS
As of

	JUNE 30 2009 (Unaudited)	DECEMBER 31 2008 (Audited)
CURRENT ASSETS		
Cash and cash equivalents (Note 4)	**$12,228,689**	$9,186,202
Temporary investments (Note 4)	**1,511,697**	8,692,008
Accounts receivable	**1,184,546**	660,578
Inventories	**2,042,951**	2,548,075
Prepaid expenses	**74,563**	114,848
	17,042,446	21,201,711
PROPERTY, PLANT AND EQUIPMENT	**970,424**	675,810
INTANGIBLE ASSETS	**3,569,054**	3,642,126
	$21,581,924	$25,519,647
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	**$1,208,875**	$1,258,780
Deferred revenues	**629,964**	388,958
	1,838,839	1,647,738
SHAREHOLDERS' EQUITY		
Share capital (Note 6)	**73,210,291**	73,210,291
Contributed Surplus	**8,022,926**	7,900,943
Deficit	**(61,490,132)**	(57,239,325)
	19,743,085	23,871,909
	$21,581,924	$25,519,647

The accompanying notes are an integral part of quarterly financial statements.

STATEMENTS OF CASH FLOWS (Unaudited)
Periods ended June 30

	SECOND QUARTER		SIX MONTHS	
	2009	2008	**2009**	2008
OPERATING ACTIVITIES				
Net Loss	**($2,263,463)**	($2,727,232)	**($4,250,807)**	($4,887,564)
Adjustment for:				
Amortization of property, plant and equipment	**53,578**	33,212	**100,540**	73,317
Amortization of intangible assets	**79,365**	74,141	**156,755**	132,747
Change in the value of temporary investments	**(18,762)**	(21,269)	**130,464**	(79,532)
Stock-based compensation	**66,027**	105,946	**121,983**	196,197
Loss (gain) on disposal of property, plant and equipment	**(1,000)**	229	**3,374**	(8,124)
	(2,084,255)	(2,534,973)	**(3,737,691)**	(4,572,959)
Changes in non-cash operating working items	**67,213**	(133,139)	**212,540**	(533,751)
Non-cash item				
Transfer to R&D	**(54,968)**	-	**(170,577)**	-
Impact of the new standards	**-**	-	**-**	34,943
Cash flows used in operation activities	**(2,072,010)**	(2,668,112)	**(3,695,728)**	(5,071,767)
INVESTING ACTIVITIES				
Acquisition of temporary investments	**(5,530,194)**	(1,503,000)	**(5,530,194)**	(1 503 000)
Disposal of temporary investments	**9,948,156**	3,454	**12,580,043**	3,016,001
Acquisition of property, plant and equipment	**(63,429)**	(131,269)	**(228,951)**	(359,646)
Acquisition of intangible assets	**(58,773)**	(11,059)	**(83,683)**	(17,468)
Disposal of property, plant and equipment	**1,000**	75	**1,000**	8,428
Cash flows used in investing activities	**4,296,760**	(1,641,799)	**6,738,215**	1,144,315
FINANCING ACTIVITIES				
Cash flows used in financing activities	**-**	-	**-**	-
INCREASE IN CASH AND CASH EQUIVALENTS	**2,224,750**	(4,309,911)	**3,042,487**	(3,927,452)
CASH AND CAHS EQUIVALENTS AT BEGINNING	**10,003,939**	22,464,186	**9,186,202**	22,081,727
CASH AND CASH EQUIVALENTS AT THE END	**$12,228,689**	$18,154,275	**$12,228,689**	$18,154,275
Comprised of:				
Cash	**$1,270,154**	$1,339,804	**$1,270,154**	$1,339,804
Cash equivalents	**10,958,535**	16,814,471	**10,958,535**	16,814,471
CASH AND CASH EQUIVALENTS	**$12,228,689**	$18,154,275	**$12,228,689**	$18,154,275

The accompanying notes are in integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS (Unaudited)
Periods ended June 30

1. Description of Business

The Company was incorporated on June 10, 1998 under Part 1A of the Companies Act (Québec). Its activities consist of developing and marketing a sterilization process for heat-sensitive medical instruments using ozone as a sterilizing agent.

2. 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. Quarterly 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, 2008 except to comply with the new accounting standards described hereafter.

The quarterly financial statements and accompanying notes should be read in conjunction with the Company's audited financial statements for the year ended December 31, 2008.

3. Change in Accounting Policies

Impact of adopting the new accounting standards

Inventories: Section 3031 replaces Section 3030, "Inventories." It indicates that inventories are valued at the lower of cost and realizable value. It provides guidance on determining cost and requires previous write-downs to be reversed when the value of inventories increases.

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

3. Change in Accounting Policies (cont'd)

	JUNE 30	
	2009	2008
Increase (decrease)		
Balance sheet		
Inventories	**$ -**	$34,943
Statement of deficit		
Accounting changes	**$ -**	($34 943)

Since the 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.

Goodwill and Intangible Assets: In February 2008, the CICA issued a new Section 3064 "Goodwill and Intangible Assets" which replaced Section 3062 "Goodwill and Other Intangible Assets" as well as Section 3450 "Research and Development Costs." The new Section 3064 states that upon initial identification, intangible assets are to be recognized as assets only if they meet the definition of an intangible asset and the asset recognition criteria. Section 3064 also provides further information on the recognition of internally generated intangible assets (including research and development costs). As for subsequent measurement of intangible assets, goodwill and disclosure, Section 3064 essentially carries forward unchanged the recommendations of former Section 3062. This section applies to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2009. The adoption of this new section does not have a significant impact on the Company's financial statements.

Future Accounting Changes

In February 2008, the Canadian Accounting Standards Board confirmed that publicly-accountable enterprises would be required to use International Financial Reporting Standards (IFRS) in the preparation of financial statements for fiscal years beginning on or after January 1, 2011. In the Company's case, the use of IFRS will be required for the interim and annual financial statements dated after January 1, 2011 with comparative statements restated under IFRS allowing the Company to evaluate the impact on its financial statements.

4. Financial Instruments

The following table gives detail on the financial instruments included in current assets:

	JUNE 30	
	2009	2008
Commercial paper and bonds maturing at various dates through April 2010	**$7,426,754**	$2,689,978
Money market funds	**5,043,478**	16,814,471
	$12,470,232	$19,504,449
Distributed as follow :		
Cash Equivalents	**$10,958,535**	$16,814,471
Temporary investments	**1,511,697**	2,689,978
	$12,470,232	$19,504,449

Cash equivalents are presented on the balance sheet under line item "Cash and cash equivalents". The item comprises of $1,270,154 in cash and $10,958,535 in cash equivalents, for a total of $12,228,689 ($18,154,275 as of June 30, 2008).

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 procedures. These measures aim primarily to minimize default risk while optimizing returns from 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.

4. Financial instruments (cont'd)

Interest Rate Risk

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

As of June 30, 2009, if interest rates at that date had been 50 basis points lower and all other variables constant, the net loss, for the six-month period, would have been $5,306 lower, 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, the net loss, for the six-month period, would have been $5,263 higher, arising mainly from a decrease in the fair value of fixed rate financial assets classified as held for trading. Net loss has sensitivity similar to the interest rate decrease than to the increase because of investments with capped interest rates.

Credit Risk

The use of financial instruments can create a credit risk in which there is a risk of financial loss resulting from a counterparty's inability or refusal to fully meet its contractual obligations. The Company's credit risk management procedures include the authorization to perform investment transactions with recognized financial institutions, either in bonds, money market funds or guaranteed investment certificates. Therefore, the Company manages credit risk by complying with the established investment procedures.

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, 2009, the Company considers that this risk is low.

4. Financial instruments (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. The Company can not guarantee that it will be able to put in place such financing.

Currency risk

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

At June 30, 2009, if the Canadian dollar had weakened 10 percent against the US dollar with all other variables held constant, the net loss, for the six-month period, would have been $82,916 lower. Conversely, if the Canadian dollar had strengthened 10 percent against the US dollar with all other variables held constant, the net loss, for the six-month period, would have been $82,916 higher.

5. Credit Facilities

The Company has a line of credit to obtain advances up to a maximum of $350,000. As of June 30, 2009, this line of credit has not been utilized.

6. Share-Capital

	JUNE 30			
	2009		2008	
Issued and paid	**Number**	**$**	Number	$
Balance at beginning	**47,863,402**	**$73,210,291**	47,863,402	$73,210,291
Balance at end	**47,863,402**	**$73,210,291**	47,863,402	$73,210,291

Stock Options and Warrants

As of March 4, 2009, the Company has granted 28,000 stock options to the independent directors of the Company. These options, which vest over three years, entitle the holder to subscribe to as many common shares of the Company at a price of $0.37 until March 4, 2019. The fair value of stock options is $0.28 per share.

As of April 1, 2009, the Company has granted 150,000 stock options to certain managers. These options, which vest over three years, entitle the holder to subscribe to common share of the Company at a price of $0.57 until April 1, 2019. The fair value of stock options is $0.45 per share.

As of April 29, 2009, the Company has granted 24,000 stock options to an employee. These options, which vest over three years, entitle the holder to subscribe to common share of the Company at a price of $0.54 until April 29, 2019. The fair value of stock options is $0.31 per share.

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 for the options granted since the beginning of the six-month period:

Risk free interest rate	**3.47 %**
Expected volatility	**71 %**
Life	**10 years**
Expected dividend yield	**0 %**

6. 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.

During the period ended June 30, 2009, Stock Options and Warrants varied as follows:

	SIX MONTHS	
Stock Options	**Number**	**Weighted Average Exercice Price**
Outstanding at the beginning of six month period	**4,225,786**	**$1.33**
Granted	**202,000**	**$0.54**
Exercised	**-**	**-**
Cancelled	**(184,362)**	**$2.12**
Outstanding at the end of period	**4,243,424**	**$1.25**
Exercisable at the end of period	**2,089,309**	**$1.98**

	SIX MONTHS	
Warrants	**Number**	**Weighted Average Exercice Price**
Outstanding at the beginning of six month period	**4,600,000**	**$3.00**
Granted	**-**	**-**
Exercised	**-**	**-**
Cancelled	**(4,600,000)**	**$3.00**
Outstanding at the end of period	**-**	**-**
Exercisable at the end of period	**-**	**-**

7. Capital Management

The Company uses its capital to finance research and development activities, operating, administrative and marketing expenses, working capital and capital assets. Historically, the Company has financed activities through several rounds of public and private financing as well as 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, 2009, the monthly burn-rate was approximately $675,000. In the current conditions, the Company believes that its current liquid assets are sufficient to finance its activities through 2010.

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

8. Earnings per Share

The following table reconciles the basic and the diluted earnings per share for the three and six-month periods ended June 30:

	SECOND QUARTER		SIX MONTHS	
	2009	2008	**2009**	2008
Net Loss				
Basic and Diluted	**$2,263,463**	$2,727,232	**$4,250,807**	$4,887,564
Number of Shares				
Weighted average number of outstanding shares (1)	**47,863,402**	47,863,402	**47,863,402**	47,863,402
Loss per Share				
Basic	**$0.05**	$0.05	**$0.09**	$0.10
Diluted (1)	**$0.05**	$0.05	**$0.09**	$0.10

8. Earnings per Share (cont'd)

(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.

9. Comparative Figures

Certain comparative figures have been reclassified to conform to the current period.

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