quarterly report

july august september

Q3 2009

TSO3

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MESSAGE FROM THE CHIEF EXECUTIVE OFFICER

Dear Shareholders,

October 2009 marked my first full year as TSO_3's President and CEO. These past twelve months have seen a lot of change in the Company and I believe that in the twelve months to come this change will be apparent to you, our shareholders.

During the past few quarters, the Company worked hard to meet previously stated objectives outlined at the Annual General Meeting of Shareholders concerning increased utility of our sterilizer. Increased utility is defined as enabling customers to sterilize an increased number of medical devices in our sterilizer with shorter cycle times.

As we close the third quarter, we open a new chapter in TSO_3's future and the goal of becoming the premier provider of low temperature sterilization systems. This starts in fourth quarter 2009, with the planned regulatory submissions and targeted selling efforts of our new sterilization cycles. I also anticipate that the work completed in third quarter will result in a shift in sales channel strategy, moving from our direct sales approach to that of using a channel partner; one able to market our enhanced products globally.

For the third quarter ended September 30, 2009, the Company realized revenues of $126,162 on the sale of consumables and service. There were no new shipments of sterilizers in third quarter. This compares with $725,257 for the same period prior year in which sterilizers, consumables and field service was sold. Year to date 2009, the Company has generated revenues of $1,170,276, compared to prior year to date of $1,853,854. The Company's net loss during the third quarter of 2009 was $2,287,711 or $0.05 per share, whereas it was $1,848,859 or $0.04 per share during the same period last year. Year to date, the net loss for the Company is $6,538,518, or $0.14 per share, compared to $6,736,423 or also $0.14 per share for the corresponding period in 2008.

The third quarter was negatively impacted by frozen budgets in targeted hospitals, which resulted in delayed purchases. With signs that budgets are slowly being released, the company expects to see these pieces of targeted business mature into purchase orders over the next months and quarters.

Results of our work

As we move into the last quarter of the year, we are aggressively executing our previously communicated plan. Objectives include: increasing the utility of our sterilizer, increasing the available market and adjusting our channel strategy. Prior to the close of the year, the Company expects to file for new regulatory clearances in Canada, the United States and Europe that include new cycles having widely expanded claims. Due to the regulatory process and given the long capital equipment selling cycle, the Company will be proactive by initiating targeted commercial activity in Canada as early as fourth quarter 2009 and expects to be able to meet all requirements to fill purchase orders by the end of first quarter 2010.

The new cycles

Using the STERIZONE® 125L Sterilizer and its demonstrated superior sterile efficacy as our platform, TSO_3 has created three new customer-driven cycles to address the widest range of medical devices. Two of the cycles require less than an hour and the third operates in less then two hours. The new cycles continue to use ozone generated within the sterilizer as the sterilizing agent. In addition, we have added a conditioning phase, which reduces the cycle time, while increasing the compatibility of the process with a wide number of devices, including some of the most challenging.

Limitations of existing sterilization systems require hospitals to maintain and support multiple types of sterilizers. Some sterilizers offer short cycles, but restrict the size of the load to be sterilized thus driving up cost associated with the process. Others use toxic, polluting chemistry that require long cycle times, protective attire for workers and treatment of the sterilizing agent before it can be safely exhausted into the environment.

Our target customers want efficacy, compatibility and speed. Our new cycles offer hospitals the broadest range of compatible instrument sterilization. Hospitals will now be able to sterilize full loads of simple and complex instruments in less than an hour. And for the first time, the most complex devices such as packaged multi channelled flexible endoscopes (colonoscopes, gastroscopes, etc.) can be repeatedly sterilized in 100 minutes. As regulatory clearances are received by market, existing customers will be offered the opportunity to have their existing equipment retrofitted to accept these new cycles.

The Channel

As previously announced, TSO_3 and 3M are working aggressively to complete the definitive Agreement which when signed, will result in a license and global distribution rights for the STERIZONE® 125L Sterilizer, including the three new cycles. A great deal of work has been accomplished. As is customary in such arrangements, 3M is completing due diligence covering the technology, as well as our regulatory and operating systems. We are pleased with the progress of these sessions. In parallel, discussions as to the timing and sequence of product introduction continue to take place, focused on markets where we expect timely regulatory clearances. Even though we cannot guarantee a positive outcome in regards to the conclusion of an agreement, within the 90 days and potentially at all, all parties continue to work well together towards apparent common goals.

In closing, I would like to express my appreciation to the TSO_3 team who, in a very short time, has met extremely aggressive goals. I am proud of their professionalism and their collective accomplishments. I would also like to thank you, our shareholders, for your continued support as we pursue the creation of the improved standard in healthcare sterilization.

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 Committee of TSO_3 and approved by its Board of Directors. The quarterly financial statements have not been subject to an external audit.

COMPANY OVERVIEW

TSO_3 was founded in June of 1998, supported by a patented and unique technology for the sterilization of medical devices. This process uses ozone as the sterilizing agent and has been designed to allow the sterilization of heat and moisture-sensitive medical devices in healthcare settings.

While traditional gaseous low-temperature sterilizing methods rely on toxic chemistry and require lengthy sterilization cycle times, newer competitive oxidizing sterilizers are very costly to operate and limited in capabilities due to load restrictions. In opposition to those methods, TSO_3's STERIZONE® Sterilization process sterilizes large loads of medicals devices quickly, cost effectively, safely and in an eco-friendly manner.

TSO_3's first product, the STERIZONE® 125L Sterilizer has received clearance for commercialization from both Health Canada and the United States Food and Drug Administration (FDA).

A NEW VISION

Starting in late 2008, TSO_3 made a series of changes in its leadership that would introduce new people and skills to build on what had already been started. TSO_3's Board of Directors appointed Mr. R.M. (Ric) Rumble to the position of CEO. Mr. Rumble then selected Mr. Robert F. Mosher, as Global Marketing Vice-President. Mid-year 2009, the Board nominated Dr. James Husman as Board Member and lead of the Scientific Advisory Committee. These and other changes supplied more than 75 years of medical device and sterilization expertise.

THE PLAN

At TSO_3's 2009 Annual General Meeting of the Shareholders held on April 30th, the new management team presented a three year plan, consistent with the company's new vision. This vision is: "To Create the Improved Standard in Healthcare Sterilization".

The plan describes the following core objectives:

1) Improve product utility through increased compatibility (gentler cycles on device materials) and speed.
2) Increase market opportunities via expansion outside North America.
3) Develop relationship leading to a channel partner.

UPDATE ON THE FIRST NINE MONTHS OF 2009

Increased utilization:

On March 10, 2009, the Company filed with the US FDA and Health Canada for enhanced claims for the sterilization of complex multi-channel flexible endoscopes which, when cleared, increase the indications for use, offering customers additional product utility further lowering their operating costs. On March 31, 2009, the Company received the approval of Health Canada and is still pursuing clearance in the US.

New sterilization cycles have been developed to further enhance the speed and materials compatibility of the sterilizer. These new cycles continue to use ozone generated within the sterilizer as a sterilizing agent, but benefits from a conditioning phase which both significantly reduces the time of the cycles and increases the compatibility of the process with a wide number of devices, including some of the most challenging. TSO_3 intends to add the new sterilization cycles to the TSO_3 STERIZONE® 125L Sterilizer, upon appropriate regulatory approvals. The Company is planning to file for approvals in Canada, Europe and the United States before year end.

Increased Market Opportunity:

Progress made in Research and Development has opened up additional opportunities for TSO_3. To assure the Company will be able to quickly take advantage of these successes, it has initiated pursuit of registration of the current product for territories outside North America.

UPDATE ON THE FIRST NINE MONTHS OF 2009 (cont'd)

Commercial Strategy:

TSO_3 believes that opportunities exist to establish channel partners as a means of accelerating the adoption of the technology on a regional and global level. During second quarter 2009, discussions started with numerous organizations concerning possible strategic partner opportunities. On September 2, 2009, the Company announced that it had entered into a 90 day exclusive negotiation period with 3M (NYSE:MMM), a leader in the infection prevention market with operations in over 60 countries, for the purpose of completing a global channel partner agreement. These negotiations are pursuant to a signed Letter of Intent and Term Sheet between the companies, for the exclusive supply and distribution of the TSO_3 STERIZONE® 125L Sterilizer including new cycles, to acute care facilities through 3M's global sales channel.

SUMMARY OF OPERATING RESULTS

Periods ended September 30, 2009 (Unaudited)

	THIRD QUARTER		NINE MONTHS	
	2009	2008	**2009**	2008
SALES	**$126,162**	$725,257	**$1,170,276**	$1,853,584
EXPENSES				
Operating	**359,275**	704,574	**1,530,267**	1,864,636
Sales & Marketing	**524,748**	724,311	**1,780,369**	2,919,073
Research & Development	**876,118**	634,390	**2,390,273**	1,870,407
Administrative	**718,322**	708,284	**2,240,998**	2,626,534
Financial	**6,488**	6,092	**16,387**	18,309
	2,484,951	2,777,651	**7 958,294**	9,298,959
OPERATING LOSS	**2,358,789**	2,052,394	**6,788,018**	7,445,375
Other Revenues	**71,078**	203,535	**249,500**	708,952
NET LOSS AND COMPREHENSIVE LOSS	**$2,287,711**	$1,848,859	**$6,538,518**	$6,736,423
BASIC AND DILUTED NET LOSS PER SHARE	**$0.05**	$0.04	**$0.14**	$0.14
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	**47,863,402**	47,863,402	**47,863,402**	47,863,402

OPERATING RESULTS ANALYSIS

Three and nine-month periods ended September 30, 2009, compared to the three and nine-month periods ended September 30, 2008.

Sales

Sales for the three-month period ended September 30, 2009 amounted to $126,162 representing the sale of accessories and services, compared to $725,257 for the same period in 2008 from the sale of five sterilizers, related accessories and services. No sterilizers were sold in the third quarter of 2009. For the nine-month period ended September 30, 2009, sales amounted to $1,170,276 representing the sale of five sterilizers, related accessories and services, compared to $1,853,854 for the sale of 11 sterilizers, related accessories and services from the same period in 2008.

Operating

For the three-month period ended September 30, 2009 operating expenses amounted to $359,275 compared to $704,574 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, transportation expenses and salaries. Conversely, expenses related to warranties have increased. For the nine-month period ended September 30, 2009, operating expenses amounted to $1,530,267 compared to $1,864,636 for the same period in 2008. The variance between the two periods is also explained by a reduction in the cost of goods sold and transportation expenses. Conversely, installation and Warranty fees experienced an increase between the two periods.

Sales and Marketing

Sales and Marketing expenses amounted to $524,748 for the three-month period ended September 30, 2009 compared to $724,311 for the same period in 2008. The variance between the two periods is due to a decrease in professional services and representation expenses, as well as commissions paid. Conversely, marketing salaries experienced an increase between the two periods, due to the hiring of a new Global Marketing Vice-President in early 2009. For the nine-month period ended September 30, 2009, Sales and Marketing expenses amounted to $1,780,369 compared to $2,919,073 for the same period in 2008. The variance between the two periods is also the result of a decrease in salaries due to a reduction in the sales workforce, representation expenses and commissions paid. Conversely, marketing salaries also experienced an increase between the two periods.

Research and Development

For the third quarter of 2009, Research and Development expenses amounted to $876,118, compared to $634,390 for the same period in 2008. The difference between the two is mainly due to material and instrument purchases in order to accelerate ongoing work on compatibility. The gap between the two periods is also explained by an increase in sub-contracting fees as well as an increase in salaries resulting from the addition of employees in R&D to pursue the development of new cycles and filings with agencies. Conversely, professional fees decreased. For the nine-month period ended September 30, 2009, R&D expenses amounted to $2,390,273 compared to $1,870,407 for the same period in 2008. The variance between the two periods is also due to material and instrument purchases made to accelerate ongoing work on compatibility. The variance is also explained by an increase in salaries resulting from the addition of employees in the R&D department. Conversely, professional fees and fees related to the Scientific Advisory Committee decreased.

Administrative

Administrative expenses amounted to $718,322 for the three-month period ended September 30, 2009, compared to $708,284 for the same period in 2008. The variance between the two periods is explained by a decrease in professional fees, expenses related to the item *Stock-based Compensation* and representation expenses. Conversely, expenses related to salaries, as well as fees related to the Board of Directors and other committees increased between the two periods. For the nine-month period ended September 30, 2009, administrative expenses amounted to $2,240,998 compared to $2,626,534 for the corresponding period in 2008. The variance between the two periods is mainly explained by a decrease in exceptional charges for severances paid in 2008. The difference is also due to a reduction in professional fees, expenses related to the item *Stock-based Compensation* and representation expenses. Conversely, expenses related to salaries, as well as fees related to the Board of Directors and other committees increased between the two periods.

OPERATING RESULTS ANALYSIS (cont'd)

Other Revenues

For the three month period ended September 30, 2009, the Company realized other revenues of $71,078 compared to $203,535 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 nine-month period ended September 30, 2009, the Company realized other revenues of $249,500 compared to $708,952 for the corresponding period in 2008. The variance is also explained by a decrease in investment revenues as well as an increase in exchange rate loss. Conversely, R&D tax credits also increased between the two periods.

Net Loss

The Company recorded a net loss of $2,287,711 for the third quarter of 2009, or $0.05 per share compared to a net loss of $1,848,859 for the same period in 2008, or $0.04 per share. For the nine-month period ended September 30, 2009, net loss amounted to $6,538,518, or $0.14 per share, compared to $6,736,423 or also $0.14 per share for the corresponding period in 2008.

FINANCIAL SITUATION ANALYSIS

	SEPTEMBER 30 (Unaudited)		DECEMBER 31 (Audited)		
	2009	2008	2008	2007	2006
Cash, Cash equivalents and Temporary investments	**$11,581,759**	$18,697,032	$17,878,210	$26,205,174	$7,308,782
Accounts Receivable	**$631,452**	$1,880,193	$660,578	$975,011	$811,119
Inventories	**$1,972,741**	$2,791,106	$2,548,075	$2,996,409	$3,387,837
Assets	**$19,079,821**	$27,950,918	$25,519,647	$34,487,951	$15,743,739
Deferred Revenues	**$536,464**	$330,617	$388,958	$145,878	$75,709
Share Capital and Contributed Surplus	**$81,295,210**	$80,987,896	$81,111,234	$80,681,660	$52,148,977
Shareholder's Equity	**$17,517,367**	$26,645,952	$23,871,909	$33,041,196	$14,624,330

FINANCIAL SITUATION ANALYSIS (cont'd)

Liquid Assets and Financial Situation

As of September 30, 2009, cash, cash equivalents and temporary investments amounted to $11,581,759 and accounts receivable amounted to $631,452 for a total of $12,213,211 compared to a total amount of $20,577,225 as of September 30, 2008.

Accounts Receivable

Accounts receivable, as of September 30, 2009, amounted to $631,452 compared to a total amount of $1,880,193 for the same period in 2008. The variance between the two periods is explained by the collection of accounts receivable.

Inventories

Inventories, as of September 30, 2009, amounted to $1,972,741 compared to a total amount of $2,791,106 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 in order to accelerate the work TSO_3 has been conducting on compatibility of medical devices.

Deferred Revenues

Deferred Revenues, as of September 30, 2009, amounted to $536,464 compared to $330,617 as of September 30, 2008. The item "Deferred Revenues" reflects financial transactions relative to parts, warranties and service contracts not yet recognized as revenues. The increase between the two periods is related to service contracts.

Statements of Cash Flow and Capital Supply

	THIRD QUARTER		NINE MONTHS	
	2009	2008	**2009**	2008
Operating Activities	**($1,685,252)**	($2,060,959)	**($5,380,980)**	($7,132,726)
Investment Activities	**($3,471,573)**	$2,256,005	**$3,266,642**	$3,400,320
Financing Activities	**$ -**	$ -	**$ -**	$ -

FINANCIAL SITUATION ANALYSIS (cont'd)

Operating activities

Cash flow used for operating activities amounted to $1,685 252 for the third quarter 2009, compared to $2,060,959 for the same period in 2008. Despite an increase in the loss, cash flow used for operating has decreased between the two periods, mainly because of a reduction in accounts receivable variation. For the first nine months of 2009, the cash flow used for operating activities amounted to $5,380,980, compared to $7,132,726 for the same period in 2008. Cash flow used for operating has decreased between the two periods, mainly because of a reduction in accounts receivable variation.

Investment activities

For the third quarter 2009, cash flows used for investment activities amounted to $3,471,573 compared to a cash flow generated by investment activities of $2,256,005 for the same period in 2008. This variance in cash flow, required for investment activities, is mainly explained by an increase of $5,509,419 in net temporary investment acquisitions between the two periods. The increase is also explained by an increase of $141,801 in acquisition of tangible assets in order to accelerate ongoing work on compatibility and by an increase of $76,358 for the acquisition of intangible assets for the filing of new patents. For the first nine months of 2009, cash flow generated by investment activities amounted to $3,266,642 compared to $3,400,320 for the corresponding period in 2008. Cash flow decreased by $153,679 between the two periods, mainly because of a decrease in the acquisition of tangible assets.

Financing Activities

The cash flow generated by financing activities was at zero for the third quarter of 2009 and 2008, as well as for the first nine months of these two years. As a matter of fact, the Company did not carry out a round of financing during these periods.

CONTRACTUAL COMMITMENTS

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

	2009	2010	2011	2012	2013
Operating leases and service contracts	**$181,153**	$250,454	$25,515	$15,538	$1,220

SUMMARY OF QUARTERLY RESULTS
(Unaudited)

	2009			2008				2007	
($000 except loss/share)	**Q3**	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Sales	**126**	511	533	382	725	1,037	91	676	281
Other Revenues	**71**	54	124	247	204	203	301	399	331
Net Loss	**2,288**	2,263	1,987	2,898	1,848	2,728	2,160	2,166	2,043
Net Loss per share (basic and diluted)	**0.05**	0.05	0.04	0.06	0.04	0.05	0.05	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. 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.

The Company's funding requirements for the years to come will depend on its ability to generate revenues from its operation and to conclude strategic alliances. For the three-month period ended September 30, 2009, the monthly burn-rate was approximately $667,000. Under current conditions, the Company believes that its current liquid assets are sufficient to finance its activities into 2011.

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

CAPITAL RESOURCES (cont'd)

The Company invests its liquidities in money market funds or in fixed-income securities offered by governmental, paragovernmental and municipal entities 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. For the first nine months of 2009, the decrease of interest rates offered by the market had an impact on the Company's interest revenues. For the coming months, we can expect the same effect if this interest rate trend continues.

As of September 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 third quarter of 2009.

TRANSACTIONS WITH RELATED PARTIES

The Company leases some of its premises from a corporation owned by related parties.

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

	SEPTEMBER 30		DECEMBER 31	
	2009	2008	2008	2007
Rent	**$47,095**	$46,171	$61,561	$59,365
Other Rent-related Expenses	**62,844**	56,931	71,138	67,069
	$109,939	$103,102	$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 September 30, 2009, no amount was included in accounts payable for transactions made with this related party compared to no amount, as well 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 or required 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:

Future Accounting Changes (cont'd)

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.

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.

ACCOUNTING POLICIES (cont'd)

Future Accounting Changes (cont'd)

- **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.

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.

LANDSCAPE AND PERSPECTIVES

The Company competes in an industry characterized by both multinational and regional companies that market low temperature sterilization technologies. The low temperature gas sterilization methods most commonly used today are the legacy system Ethylene Oxide and more recently, the Hydrogen Peroxide sterilization systems (since 1993). Low temperature sterilization is performed in three distinct areas within acute care hospitals, including: Central Sterilization (CS), Operating Rooms Sterile Processing area (OR), and Gastroenterology departments (GI). The primary target market for the TSO_3 STERIZONE® 125L Sterilizer, is Central Sterilization departments within acute care hospitals. This targeted customer group, by nature, is conservative and the sales cycle is lengthy as result of administrative and budgeting procedures. These customers are seeking increased throughput via a low temperature sterilization process which is efficacious, compatible, cost effective and safe for patients, users and the environment. There is currently no sterilization process on the market that offers such a complete solution. As a result, end-users must use a combination of products and technologies to answer their sterilization needs.

With the recently developed new cycles, all offering increased compatibility and speed, TSO_3 will be able to position its enhanced product as the first complete low temperature sterilization solution for CS departments. The Company believes that its technology is also well suited for other departments where terminal sterilization is required such as the OR and GI departments. As such, the Company expects to develop, over time, additional offerings targeted at these two customer groups.

SEGMENTED INFORMATION

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

	THIRD QUARTER				NINE MONTH			
	2009		2008		**2009**		2008	
Canada	**$61,634**	**49%**	$368,294	51%	**$277,110**	**24%**	$1,009,259	54%
USA	**64,528**	**51%**	356,963	49%	**893,166**	**76%**	844,325	46%
	$126,162	**100%**	$725,257	100%	**$1,170,276**	**100%**	$1,853,584	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 September 30, 2009, if interest rates at that date had been 50 basis points lower and all other variables constant, the net loss, for the nine-month period, would have been $9,370 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 nine-month period, would have been $10,166 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.

RISK FACTORS (cont'd)

Cash Equivalents and Temporary Investments (cont'd)

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 September 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 September 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 nine-month period, would have been $17,934 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 nine-month period, would have been $17,934 higher.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

No material changes were made to internal controls over financial reporting in the third 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 November 10, 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

November 10, 2009

TSO_3 Inc.

QUARTERLY FINANCIAL STATEMENTS
September 30, 2009

Q3

Notice from Management

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

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

	THIRD QUARTER		NINE MONTHS	
	2009	2008	**2009**	2008
SALES	**$126,162**	$725,257	**$1,170,276**	$1,853,584
EXPENSES				
Operating	**359,275**	704,574	**1,530,267**	1,864,636
Sales and Marketing	**524,748**	724,311	**1,780,369**	2,919,073
Research and Development	**876,118**	634,390	**2,390,273**	1,870,407
Administrative	**718,322**	708,284	**2,240,998**	2,626,534
Financial	**6,488**	6,092	**16,387**	18,309
	2,484,951	2,777,651	**7,958,294**	9,298,959
OPERATING LOSS	**2,358,789**	2,052,394	**6,788,018**	7,445,375
Other Revenues	**71,078**	203,535	**249,500**	708,952
NET LOSS AND COMPREHENSIVE LOSS	**$2,287,711**	$1,848,859	**$6,538,518**	$6,736,423
BASIC AND DILUTED NET LOSS PER SHARE (NOTE 8)	**$0.05**	$0.04	**$0.14**	$0.14

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

STATEMENTS OF CONTRIBUTED SURPLUS (Unaudited)
Periods ended September 30

	THIRD QUARTER		NINE MONTHS	
	2009	2008	**2009**	2008
Balance, beginning of period	**$8,022,926**	$7,667,566	**$7,900,943**	$7,471,369
Stock-based Compensation	**61,993**	110,039	**183,976**	306,236
Balance, end of period	**$8,084,919**	$7,777,605	**$8,084,919**	$7,777,605

STATEMENTS OF DEFICIT (Unaudited)
Periods ended September 30

	THIRD QUARTER		NINE MONTHS	
	2009	2008	**2009**	2008
Balance, beginning of period	**$61,490,132**	$52,493,085	**$57,239,325**	$47,640,464
Change in accounting policies (Note 3)	**-**	-	**-**	(34,943)
Restated Deficit	**61,490,132**	52,493,085	**57,239,325**	47,605,521
Net Loss	**2,287, 711**	1,848,859	**6,538,518**	6,736,423
Balance, end of period	**$63,777,843**	$54,341,944	**$63,777,843**	$54,341,944

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

BALANCE SHEETS
As of

	SEPTEMBER 30 2009 (Unaudited)	DECEMBER 31 2008 (Audited)
CURRENT ASSETS		
Cash and cash equivalents (Note 4)	**$7,071,864**	$9,186,202
Temporary investments (Note 4)	**4,509,895**	8,692,008
Accounts receivable	**631,452**	660,578
Inventories	**1,972,741**	2,548,075
Prepaid expenses	**190,074**	114,848
	14,376,026	21,201,711
PROPERTY, PLANT AND EQUIPMENT	**1,122,650**	675,810
INTANGIBLE ASSETS	**3,581,145**	3,642,126
	$19,079,821	$25,519,647
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	**$1,025,990**	$1,258,780
Deferred revenues	**536,464**	388,958
	1,562,454	1,647,738
SHAREHOLDERS' EQUITY		
Share capital (Note 6)	**73,210,291**	73,210,291
Contributed Surplus	**8,084,919**	7,900,943
Deficit	**(63,777,843)**	(57,239,325)
	17,517,367	23,871,909
	$19,079,821	$25,519,647

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

STATEMENTS OF CASH FLOWS (Unaudited)
Periods ended September 30

	THIRD QUARTER		NINE MONTHS	
	2009	2008	**2009**	2008
OPERATING ACTIVITIES				
Net Loss	**($2,287,711)**	($1,848,859)	**($6,538,518)**	($6,736,423)
Adjustment for:				
Amortization of property, plant and equipment	**67,377**	39,437	**167, 917**	112,754
Amortization of intangible assets	**80,410**	71,954	**237,165**	204,701
Change in the value of temporary investments	**161,269**	(7,683)	**291,733**	(87,215)
Stock-based compensation	**61,993**	110,039	**183,976**	306,236
Loss (gain) on disposal of property, plant and equipment	**-**	-	**3,374**	(8,124)
	(1,916,662)	(1,635,112)	**(5,654,353)**	(6,208,071)
Changes in non-cash operating working items	**231,410**	(425,847)	**443,950**	(959,598)
Non-cash item				
Transfer to R&D	**-**	-	**(170,577)**	-
Impact of the new standards	**-**	-	**-**	34,943
Cash flows used in operation activities	**(1,685,252)**	(2,060,959)	**(5,380,980)**	(7,132,726)
INVESTING ACTIVITIES				
Acquisition of temporary investments	**(6,025,214)**	(4,000,000)	**(11,555,408)**	(5,503,000)
Disposal of temporary investments	**2,865,745**	6,349,950	**15,445,788**	9,365,951
Acquisition of property, plant and equipment	**(219,603)**	(77,802)	**(448,554)**	(437,448)
Acquisition of intangible assets	**(92,501)**	(16,143)	**(176,184)**	(33,611)
Disposal of property, plant and equipment	**-**	-	**1,000**	8,428
Cash flows used in investing activities	**(3,471,573)**	2,256,005	**3,266,642**	3,400,320
FINANCING ACTIVITIES				
Cash flows used in financing activities	**-**	-	**-**	-
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(5,156,825)**	195,046	**(2,114,338)**	(3,732,406)
CASH AND CASH EQUIVALENTS AT BEGINNING	**12,228,689**	18,154,275	**9,186,202**	22,081,727
CASH AND CASH EQUIVALENTS AT THE END	**$7,071,864**	$18,349,321	**$7,071,864**	$18,349,321
Comprised of:				
Cash	**$786,181**	$592,868	**$786,181**	$592,868
Cash equivalents	**6,285,683**	17,756,453	**6,285,683**	17,756,453
CASH AND CASH EQUIVALENTS	**$7,071,864**	$18,349,321	**$7,071,864**	$18,349,321

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

NOTES TO THE FINANCIAL STATEMENTS (Unaudited)
Periods ended September 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)

	SEPTEMBER 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:

	SEPTEMBER 30	
	2009	2008
Commercial paper and bonds maturing at various dates through July 2010	**$4,509,895**	$6,197,662
Money market funds	**6,285,683**	11,906,502
	$10,795,578	$18,104,164
Distributed as follow :		
Cash Equivalents	**$6,285,683**	$17,756,453
Temporary investments	**4,509,895**	347,711
	$10,795,578	$18,104,164

Cash equivalents are presented on the balance sheet under line item "Cash and cash equivalents". The item comprises of $786,181 in cash and $6,285,683 in cash equivalents, for a total of $7,071,864 ($18,349,321 as of September 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 September 30, 2009, if interest rates at that date had been 50 basis points lower and all other variables constant, the net loss, for the nine-month period, would have been $9,370 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 nine-month period, would have been $10,166 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 September 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 September 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 nine-month period, would have been $17,934 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 nine-month period, would have been $17,934 higher.

5. Credit Facilities

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

6. Share-Capital

	SEPTEMBER 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

For the three-month period ended September 30, 2009, the Company awarded 51,000 stock options to its directors and a supplier, at a weighted average exercise price of $0.48. The weighted average fair value of these stock options was $0.32 per option.

For the nine-month period ended September 30, 2009, the Company awarded 253,000 stock options to its employees, managers, directors and suppliers at a weighted average exercise price of $0.53. The weighted average fair value of these stock options was $0.40 per option.

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 nine-month period:

Risk free interest rate	**3.38 %**
Expected volatility	**72 %**
Life	**9 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 September 30, 2009, Stock Options and Warrants varied as follows:

	NINE MONTHS	
Stock Options	**Number**	**Weighted Average Exercice Price**
Outstanding at the beginning of nine month period	**4,225,786**	**$1.33**
Granted	**253,000**	**$0.53**
Exercised	**-**	**-**
Cancelled	**(199,515)**	**$2.13**
Outstanding at the end of period	**4,279,271**	**$1.24**
Exercisable at the end of period	**2,124,762**	**$1.97**

	NINE MONTHS	
Warrants	**Number**	**Weighted Average Exercice Price**
Outstanding at the beginning of nine month period	**4,600,000**	**$3.00**
Expired	**(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 September 30, 2009, the monthly burn-rate was approximately $667,000. In the current conditions, the Company believes that its current liquid assets are sufficient to finance its activities into 2011.

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 nine-month periods ended September 30:

	THIRD QUARTER		NINE MONTHS	
	2009	2008	**2009**	2008
Net Loss				
Basic and Diluted	**$2,287,711**	$1,848,859	**$6,538,518**	$6,736,423
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**	$0.04	**$0.14**	$0.14
Diluted (1)	**$0.05**	$0.04	**$0.14**	$0.14

(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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