Q1 2011

January February March

Quarterly Report

TSO3

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MESSAGE FROM THE PRESIDENT AND CEO

Dear Valued Shareholders,

I am pleased to say that as we closed the first quarter of 2011, verification and validation process as well as reliability testing, underway for several months now, began to wrap-up and the data collected is currently being reviewed. Meetings with our channel partner have gone from those of a technical nature to those focused on operations and commercial launches in multiple geographies. During the quarter we became actively involved in the planning of installations to those accounts who have supplied early purchase orders.

The above list however is only a partial account of our on-going activities. Within the 2010 year-end release mid-March, we informed you that we had been granted a second face-to-face meeting with the US Regulatory Agency in support of resubmitting our new product in that market. With this meeting now concluded and minimal data collection to be completed, we believe we are well positioned to proceed for market clearance request, and expect to submit a new 510(k) application at the end of the second quarter.

Within the first quarter, progress was made on our new OR Sterilizer project. This project is well into the feasibility stage, and all results reinforce our belief that our STERIZONE® technology is well suited to meet the requirements of the Operating Room (OR) environment where there is a significant need for sterile reprocessing. Our new sterilizer, which is smaller and restricted to instruments routinely sterilized in the OR, will offer terminal sterilization for complex and expensive rigid and flexible endoscopes, as well as powered instruments and imaging accessories. Our target remains as it was - to freeze the design of this new product by year-end 2011.

This is a very exciting time as we are collaborating with 3M™ towards the commercial launch of our product. It is also exciting as an additional application of our technology is taking shape; one intended for a high demand and a high growth market segment. We look forward to continuing growing this business and bringing on more value, through product development and other opportunities in our market space.

As always, we will keep you informed of our progress and of any development that may be valuable information to you, our shareholders.

R.M. (Ric) Rumble
CEO

OVERVIEW

Who we are and what we do

TSO_3 was founded in June 1998 in Québec City and currently employs 56 people. The Company's activities encompass research, development, commercialization and licensing of sterilization processes and accessories for heat-sensitive medical devices.

Originally, TSO_3 developed a unique sterilization process based only on ozone as the sterilizing agent. It offered major savings over competing low-temperature sterilization methods, greater safety for both users and patients and was considered a "green" technology. However, this first generation product provided limited instruments compatibility and a somewhat longer sterilization cycle.

The first generation sterilizer received regulatory clearances from both Health Canada and the United States Food and Drug Administration. It also received additional clearances expanding the field of application to a wider range of complex surgical instruments, attesting to the high sterilization efficacy of the TSO_3 STERIZONE® sterilization platform.

Despite its significant advantages, this first generation product did not succeed in addressing the overall market needs and therefore had limited commercial success, achieving only 38 sales in North America by TSO_3's own sales force over a period of five years.

A renewed Company

In 2008, TSO_3 welcomed new management team members with extensive experience in the sterilization industry. The team lead the development of a new generation sterilizer that would benefit from the already proven superior sterile efficacy of the STERIZONE® technology, while offering increased compatibility and speed, matching the market's expectations for high-throughput of expensive and high-demand complex medical devices.

The new generation STERIZONE® 125L**+** Sterilizer developed in 2009 uses a combination of hydrogen peroxide and ozone. This significantly increases speed, as well as compatibility with a wide range of instruments - including some of the most complex and delicate instruments used in Minimally Invasive Surgeries (MIS).

The STERIZONE® 125L**+** Sterilizer offers efficacious and high-throughput, low-temperature sterilization for the high turnover volume requirements of the hospital's Central Sterile Department and enables the replacement of a combination of competitive sterilization methods.

The STERIZONE® 125L**+** Sterilizer is under a global license agreement for worldwide commercialization to healthcare settings by 3M™ Infection Prevention Division under the brand **3M™ Optreoz™ 125-Z.**

Our business environment and the market drivers

Sterile reprocessing of medical devices is essential to ensure positive surgical outcomes. The use of non-sterile surgical instruments contributes to increased infection rates. These increase patient hospital stays, drive up the cost of care and can lead to increased mortality rates.

The growing and aging population worldwide (65 years +) – demanding more OR time - creates greater and growing demand for efficacious and high-throughput sterilization methods.

Today, it is not uncommon to find sterile reprocessing of instruments conducted in three areas of the hospital. These are: the Central Sterile Department (CS), the sub-sterile area of the Operating Room (OR) and the Gastroenterology Department (GI).

Why low temperature sterile reprocessing

While some medical instruments are designed for single use, the majority must be reprocessed between surgical cases and as such, need to be compatible with the sterilization process used. Traditionally, steam was used to sterilize surgical instruments.

Today's surgical suite is very different from those of the past. Today, the trend continues towards the practice of minimally invasive surgery (MIS). Devices used in MIS are complex, expensive and delicate, and in most cases, do not tolerate the steam sterilization process. These high-demand devices are a challenge for sterilization and are a major financial investment for hospitals.

Our competitive landscape

The Company competes in an industry characterized by both multinational and regional companies that market low temperature sterilization technologies. The main players in this space are STERIS Corporation, Johnson & Johnson and 3M™ Company.

The low-temperature gas sterilization methods most commonly used today are Ethylene Oxide (EtO) and Hydrogen Peroxide (H_2O_2) sterilization systems. These methods both offer "terminal sterilization" referring to the instruments being packaged and therefore, remaining sterile until opened at the surgical site. However, EtO is a toxic gas which requires aeration time for desorption of the chemistry; this keeps expensive stock of medical devices captive for periods of 16 to 30 hours. H_2O_2, on the other hand, is fast but very expensive, and is limited in efficacy and in loading capacity.

Another method playing an important role in a sub-segment of low temperature sterilization is Liquid Chemical Sterilization. This type of procedure is located directly in the OR as a just-in-time method to complement the CS Department's sterile production. The GI department is also a heavy user of Liquid Chemical Sterilization. Liquid systems are not terminal and require rinsing with extensively treated water that cannot be assured to be sterile. As such, instruments cannot be assured to be sterile when used on a patient.

These products each offer benefits to the customers, but neither is a complete solution matching the customer need for high and cost effective throughput of complex and expensive medical devices. Therefore, customers have to purchase and support a combination of products to meet their daily requirements for sterile supplies.

Our current business plan (2010 – 2012) includes the following priorities:

- Support 3M™ in launching the 3M™ Optreoz™ 125-Z Sterilizer in cleared markets;
- Obtain United States regulatory clearance for 3M to access this market with 3M™ Optreoz™ 125-Z Sterilizer;
- Finalize development of additional product intended for the OR Sub-Sterile Area;
- Continue reinforcing organizational structure through reorganization and addition of new talent and skills;
- Explore additional opportunities to increase revenue stream which may include acquisition of products or technologies within the Company's current market space of medical sterile reprocessing.

FIRST QUARTER 2011 AND RECENT ACTIVITIES

Finalizing necessary work for commercial launch

In the first quarter of 2011, TSO_3 completed reliability testing procedures, assembly processes and work procedures. In addition, the Company completed the Verification and Validation process for the critical components of the sterilizers. This work was undertaken in order to meet quality requirements customary in the industry and ensure that units produced and shipped to customers perform consistently and meet expectations.

TSO_3 expects shipments of the first 3M™ Optreoz™ 125-Z sterilizers to customer locations late in the second quarter of 2011.

Regulatory status for the United States market

As a reminder, mid-year 2010, the US Regulatory Agency announced it was changing its processes and expectations for products seeking 510(k) clearance. The Agency's goal is to make this process more predictable through more discussions and meetings up-front, before submittals take place.

After several productive discussions and a very recent meeting with the regulators, TSO_3 expects to submit a new request for market clearance late June 2011 and remains confident in its ability to obtain US regulatory clearance on the 3M™ Optreoz™ 125-Z.

Expanding the portfolio of products

In order to add to its revenue stream, TSO_3 intends to develop additional products based on its patented STERIZONE® technology. The terminal sterilization solution developed by TSO_3 can be favourably applied to multiple segments of the low temperature sterilization market.

In the first quarter of 2011, TSO_3 continued the design of a second product, based on our new technology, intended for the OR Sub-Sterile area.

Market research supports the Company's belief that there is a substantial need for a sterilization solution in that market segment, such as the one that TSO_3 can provide.

Building structure and skills

Over the last two years, TSO_3 has gradually moved financial resources spending from Sales & Marketing functions to Research & Development functions.

Following this approach, TSO_3 has welcomed senior leadership in both engineering and supply chain. Moving into 2011, the Company intends to reinforce its quality assurance and finance departments by welcoming new senior leadership.

MANAGEMENT DISCUSSION AND ANALYSIS

The Management discussion and analysis (MD&A) is intended to help the readers to assess, through the eyes of management, the financial position and results of operations of TSO_3 Inc. ("TSO_3" or the "Company"), for the three-month period ended March 31, 2011 in comparison with the three-month period ended March 31, 2010. This information is dated May 10, 2011 and should be read in conjunction with the condensed interim financial statements and the accompanying notes covering these periods. Unless specified otherwise, the amounts are stated in Canadian dollars.

The financial information contained in this MD&A and in the condensed interim financial statements reflects the Company's adoption of International Financial Reporting Standards ("IFRS"), and is in compliance with International Accounting Standard 34 - Interim Financial Reporting ("IAS 34"). The comparative figures have been restated for a presentation on an IFRS basis. The impacts of IFRS adoption are described in detail in the MD&A and in the note 19 of the condensed interim financial statements. Our financial statements subsequent to this report will now be prepared on an IFRS base.

The condensed interim financial statements, accompanying notes and MD&A have been reviewed by the Audit Committee of TSO_3 and approved by the Board of Directors.

This MD&A contains forward-looking information. Additional information about the forward-looking information as well as the associated risks and uncertainties can be found on pages 15 à 19 of the report.

SUMMARY OF RESULTS

Three-month period ended March 31
(Unaudited, IFRS Base)

	FIRST QUARTER	
	2011	2010
	$	$
Sales	**136,628**	144,228
License Revenues	**52,569**	44,046
	189,197	188,274
Expenses		
Operating	**325,068**	340,492
Sales & Marketing	**158,739**	313,043
Research & Development	**849,706**	705,055
Administrative	**795,802**	903,912
Net Financial	**(60,108)**	(17,672)
	2,069,207	2,244,830
Net Loss and Comprehensive Loss	**1,880,010**	2,056,556
Basic and Diluted Net Loss per Share	**0.03**	0.04
Weighted Average Number of Shares Outstanding	**58,024,508**	51,227,865

RESULTS ANALYSIS

In the following paragraphs, we analyze the variances between the first quarter of 2011 and the first quarter of 2010.

Sales

In Q1 2011, sales amounted to $136,628, representing the sale of supplies, accessories and service contracts, compared to $144,228 in 2010 for the same type of products. No sterilizers were sold in either of the two quarters.

License Revenues

For the first quarter of 2011, the Company recorded an amount of $52,569 as License revenues compared to $44,046 in 2010. These revenues are related to the commercial agreement signed with 3M™ and correspond to the amortization of the sums received from 3M™ following the achievement of milestones. They are now presented separately in the statement of loss and comprehensive loss.

Operating

The operating expenses amounted to $325,068 compared to $340,492 in 2010. The manufacturing of new generation units, validation of these sterilizers and the improvement of various processes related to production and supply chain constituted the majority of activities during the quarter.

Sales and Marketing

The sales and marketing expenses amounted to $158,739 compared to $313,043 in 2010. This variance is due to a decrease in salaries, fringes benefits, and traveling expenses since these activities are now transferred to the responsibility of the channel partner.

Research and Development

The research and development expenses, which included a R&D tax credit of $75,000 ($76,000 in 2010), amounted to $849,706 compared to $705,055 in 2010. This variance is due to an increase in salaries, material purchases and professional fees. This costs increase in the first quarter of 2011 is the result of the substantial work performed during the quarter for the Verification and Validation process and also the work undertaken to develop a new sterilizer designated for the OR Sub-Sterile Area.

Administrative

The administrative expenses amounted to $795,802 compared to $903,912 in 2010. The decrease is explained by a reduction in salaries and traveling expenses due to the vacancy of the CFO position. It is also explained by lower professional fees related to the review and testing of internal controls.

Net Financial

The net financial expenses, which are in fact net financial revenues for both quarters, amounted to $60,108 compared to $17,672 in 2010. This category includes principally bank charges, investment income, changes in the value of investments and foreign exchange gain or loss. The variance between the two periods is the result of a greater appreciation in fair value of investments held.

FINANCIAL POSITION ANALYSIS

(Unaudited, IFRS Base)

	March 31 2011 $	December 31 2010 $
Cash and Cash Equivalent	**15,375,638**	9,107,143
Temporary Investments	**1,454,748**	10,012,864
Accounts Receivable	**534,393**	437,816
Inventories	**1,717,710**	1,460,304
Property, Plant and Equipment	**845,214**	896,887
Intangible Assets	**3,369,730**	3,400,179
Accounts payable	**1,160,276**	1,201,044
Deferred Revenues (Current and non-current)	**2,128,229**	2,263,042
Equity	**20,059,678**	21,909,619

Liquid Assets

As of March 31, 2011, cash, cash equivalents and temporary investments amounted to $16,830,386 compared to an amount of $19,120,007 as of December 31, 2010. The Company tightly manages its liquidity to achieve its strategic objectives.

Inventories

The balance of inventories, which amounted to $1,717,710, increased by $257,406 between December 2010 and March 2011. The increase is explained by the manufacturing of a backlog for units to be delivered in 2011 and included in the work in progress at the end of the quarter.

Deferred Revenues

Current and non-current deferred revenues, as of March 31, 2011, amounted to $2,128,229 compared to $2,263,042 as of December 31, 2010. The item “deferred revenues” reflects financial transactions related to parts, license revenues and service contracts not yet recognized as revenue. As of March 31, 2011, the Company had 19 active service contracts for its first generation sterilizer.

CASH FLOWS ANALYSIS

(Unaudited, IFRS Base)

	FIRST QUARTER	
	2011	2010
	$	$
Operating Activities	**(2,234,868)**	(1,114,218)
Investing Activities	**8,498,503**	1,449,591
Financing Activities	**4,860**	14,813,626

Operating Activities

Cash flow used for operating activities amounted to $2,234,868 for the first quarter of 2011, compared to $1,114,218 for the same period in 2010. A major decrease in the non-cash operating working capital items explains the variance. This decrease is mostly related to the transactions with 3M™ that took place at the beginning of 2010.

Investing Activities

Cash flows generated by investing activities amounted to $8,498,503 compared to $1,449,591 in 2010. The variance is explained by a transfer of short term investment in cash equivalent since the investment will mature within three months.

Financing Activities

Cash flows from financing activities amounted to $4,860 compared to $14,813,626 in 2010. The financing round of March 2010, which generated a net cash flow of $14,678,538, explains the variance.

SUMMARY OF QUARTERLY RESULTS

(Unaudited)

This table shows the quarterly evolution of sales, net losses and net losses per share. The figures related to 2011 and 2010 take into account the adjustments resulting from IFRS application.

($000 except loss/share)	**2011**				2010				2009
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Sales	**137**	178	123	494	144	155	126	511	533
Net Loss	**1,880**	1,723	2,055	1,929	2,057	2,680	2,288	2,263	1,987
Net Loss per Share (basic and diluted)	**0.03**	0.03	0.04	0.03	0.04	0.05	0.05	0.05	0.04

TRANSACTIONS WITH RELATED PARTIES

The Company carried out the following transactions with a company controlled by certain shareholders at TSO_3:

		March 31		December 31
	2011	2010	2010	2009
	$	$	$	$
Rent	**15,982**	15,792	63,170	62,793
Other Rent-related Expenses	**26,494**	31,191	82,615	80,175
	42,476	46,983	145,785	142,968

These transactions were carried out during the normal course of business and were measured at the exchange amount, which is the amount of the consideration agreed to and accepted by the Company and the related company. No amount was included in accounts payable with respect to transactions with this related company as of March 31, 2011, as was the case in 2010.

SEGMENTED INFORMATION

The Company is structured as a single operating segment.

All fixed assets of the Company are located in Canada.

Operating revenues are allocated between geographic areas based on the location of the client and are as follows for the three-month period ended March 31:

	FIRST QUARTER			
	2011		2010	
	$	**%**	$	%
Canada	**61,322**	**45**	60,514	42
United States and others	**75,306**	**55**	83,714	58
	136,628	**100**	144,228	100

The Company earns an important part of its revenues from a customer with which a commercial agreement was signed. For 2011, these revenues represented 7% of the Company's quarterly sales (0% for the same quarter in 2010).

License revenues, in the amount of $52,569, also resulted from this commercial agreement (see note 11).

CONTRACTUAL COMMITMENTS

As of March 31, 2011, the contractual commitments in the fiscal years to come are as follows:

	2011	2012	2013	2014	2015
	$	$	$	$	$
Operating leases and service contracts	**73,702**	20,868	2,063	843	843

OFF-BALANCE SHEET ARRANGEMENT

The Company made no off-balance sheet arrangement during the first quarter of 2011.

CAPITAL RESOURCES

The Company principally uses its capital to finance operating expenses, commercialization expenses, marketing expenses, R&D expenses, administrative expenses, working capital and capital expenditures.

In the past, the Company has funded its activities through several rounds of public and private financing, as well as from various government subsidies. Depending on its capacities and prevailing market conditions, the Company could finance all or a portion of its non-current assets through long-term debt.

For the three-month period ended March 31, 2011, the monthly burn-rate was $769,189. At the actual pace, the Company believes that its current liquid assets will be sufficient to finance its activities into 2013.

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

The Company invests its liquidities in highly-liquid, short and medium term investments as defined in its Investment Policy (see section on Risk Factors). These securities are chosen according to the schedule of foreseen expenses and according to interest rates.

As of March 31, 2011, the number of outstanding shares was 58,026,051.

ACCOUNTING POLICIES

See note 2 of our condensed interim financial statements for the period ended March 31, 2011 for a detailed presentation of accounting policies, critical accounting judgments and key source of estimation uncertainty.

ADOPTION OF IFRS – IMPACTS

As stated by the Canadian Accounting Standards Board, the Company is required to adopt the IFRS for its interim and annual financial statements beginning January 1, 2011 and to provide a restated comparative statement in accordance with IFRS.

The following paragraphs explain in detail the impacts of IFRS adoption on the financial statements of the Company and are intended to supplement the information and reconciliation tables presented in the accompanying note 19 of the condensed interim financial statements for the period ended March 31, 2011.

Initial elections upon adoption

Note 19 explains in detail the choices made by the management regarding the IFRS 1 - First-time adoption of International Financial Reporting Standards. These choices concern the stock option costs, the deemed cost of property, plant and equipment, the designation of financial instruments on the transition date and the business combination accounting treatment, and have been made considering accounting policies already used. For this reason these choices have no significant impact for the Company.

Presentation and reclassifications

One of the changes brought about by the IFRS standards concerns the presentation of transactions affecting the equity. In our preceding presentation conforming to Canadian Generally Accepted Accounting Principles (GAAP), these transactions were presented in two separate statements of the financial statement, namely, the statement of contributed surplus and the statement of deficit. The transactions affecting share capital were explained in notes in the financial statements, and directly affect share capital in the balance sheet. Our new presentation, requested by IFRS, groups these transactions into one statement, the statement of changes in equity. In order to adopt this new presentation, the Company has reviewed the nature of the elements comprising the balance of contributed surplus and deficit to January 1, 2010, the transition date, and has reclassified these items in separate sections according to their nature. The statement of changes in equity presents therefore four distinct headings: Share Capital, Reserve related to stock options plan, Reserve related to warrants and the Deficit. Other headings may be added in the future according to the transactions to be realized.

A further impact relates to the presentation of the statement of loss and comprehensive loss. The Company had the choice between a presentation by function or a presentation based on the nature of expenses. The Company retained the presentation by function, as it considers that it allows a better understanding of the specific activities of the Company. This presentation, similar to that previously used, resulted in the reclassification of items included under heading “Other income” as described hereafter, and consequently, the elimination of this heading:

- The license revenues (formerly known as “Amortization of long term Deferred Revenues”): Presented separately in the Statement of Loss and Comprehensive Loss;
- The research and development tax credits: Presented against the Research and Development Expenses;
- The investment income, the change in the value of investments and the foreign exchange loss or gain: Grouped under the heading “Net financial”;
- The loss on disposal of property, plant and equipment, the grants and other revenues: Reclassified under other functions to which they belong.

Finally, the Company has presented separately, in the statement of financial position, the accounting provision related to the first year warranty, conforming to the requirements of IAS 37 – Provisions, contingent liabilities and contingent assets.

Changes in accounting policies and financial adjustments

During the last few months, and as explained in the 2010 Annual Report, the Company has determined the impact of certain accounting modifications required by IFRS and has made the necessary adjustments on the opening balance of the deficit of January 1, 2010, when judged material.

Under IFRS 2 – Share-based payment, the Company has recalculated the cumulative stock-based compensation expense related to the options granted since January 1, 2007, taking into account a reserve for options for which the rights that will never be acquired. This reserve has been calculated from historical data established by employee class (regular employees, administrators and managers). Based on these calculations, the Company has determined that the impact would not be significant and consequently, has no impact on the opening balance of Deficit for January 1, 2010.

Under IAS 16 – Property, plant and equipment, the Company has the obligation to separately amortize the different parts of property, plant and equipment according to their specific useful life. After detailed analysis of the tangible assets held on the transition date and on January 1, 2011, the management has concluded that there is no significant component having a useful life expectancy different from the remainder of the asset. However based on this analysis, the Company has decided to group in the same category hospital equipment (endoscopes, gastroscopes, etc.). In addition for the sterilizers used in the R&D department and presently included in equipment and tools for production and R&D, the Company has decided to present them in a separate category.

The Company has decided to change its current diminishing balance method used for tangible assets for the straight-line method. The management considers that the straight-line method provides more reliable and relevant information about the real effect of the consumption of asset's future economic benefits requested by IAS 16. For this reason, the modification of the depreciation method has been considered as a change in accounting policies and has been applied retrospectively. The financial impact of this change is $133,230 on the opening balance of Deficit on January 1, 2010.

RISK FACTORS

Investors should understand that the Company operates in a high risk industry. The Company has identified the following risks and uncertainties that may have a material adverse effect on its business, financial condition or results. Investors should carefully consider the risks described below before purchasing securities of the Company. The risks described below are not the only ones the Company faces. Additional risks not presently known to the Company or that the Company currently believes are immaterial may also significantly impair its business operations. The Company's business could be harmed by any of these risks.

Risk associated with Commercial Operations

TSO_3 has a commercial agreement with 3M™ Infection Prevention Division for the marketing, sales and service of its new generation sterilizer. While the agreement outlines roles, responsibilities and expectations of both TSO_3 and 3M™, 3M™ retains all responsibility concerning customers. The schedules, difficulties to meet the requirements of regulatory authorities, changes in foreign trade policies, fluctuations of foreign exchanges rates, political instability could, amongst others, negatively affect the commercial activities and the agreement between TSO_3 and 3M™.

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 STERIZONE® 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 cannot guarantee the success of its 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 major negative impact on TSO_3. The Management has reviewed its succession plan in 2010 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 and operating capacity.

Intellectual Property and Counterfeiting Risks

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

Competition Risks

The Company's products face intense competition. Many of our competitors have greater financial resources and marketing capabilities than our own, and potentially our channel partner. 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 license, 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.

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 technology. To address the problems associated with such lawsuits, the Company is of the opinion that it has the necessary insurance coverage.

Regulatory Approvals

Sterilizers are subject to regulatory clearances within individual markets. As such, they are evaluated for compliance with established consensus standards. When a new technology is involved, there is no such standard. In such a case, a manufacturer must identify an existing "predicate" device from which to compare the new technology. The Company has effectively demonstrated such "predicate" devices in the past concerning the first generation sterilizer. While the Company believes that it is taking all appropriate steps to support existing and future submissions for regulatory clearance, it can not guarantee when, or if, such clearances will be received.

Financial Instruments

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 Investment Policy. The measures aim primarily to optimize 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 its 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.

On March 31, 2011, if the base rate on that date had been 0.5% lower, and all other variables held constant, the net loss and comprehensive loss would have been $13,575 lower, arising mainly as a result of an increase in the fair value of fixed rate financial assets classified as held for trading. If the base rates on that date had been 0.5% higher, all other variables held constant, the net loss and comprehensive loss would have been $13,485 higher, arising mainly as a result of a decrease in the fair value of fixed rate financial assets classified as held for trading. The net loss and comprehensive loss therefore have a similar sensitivity to interest rate increases and interest rate decreases 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 has established an Investment Policy that addresses credit risk management and includes the authorization to perform investment transactions with the Canadian federal or provincial governments, crown corporations, municipalities or financial institutions, either in money market funds, guaranteed investment certificates or bonds with credit ratings of a minimum of A- or more according to Standard and Poor's and a second credit rating agency. This Policy defines credit risk limits based on the characteristics of the counterparties. Therefore, the Company manages credit risk by complying with its established Investment Policy. As of March 31, 2011, the Company's investments were rated by two recognized agencies, and they respected the Company's Investment Policy.

Concentration risk

Concentration risk exists when investments are made with multiple entities that share similar characteristics or when a large investment is made with a single entity. As of March 31, 2011, in accordance with the Company's Investment Policy, there were no investments totalling more than 30% that did not provide a government guarantee.

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 cannot 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.

On March 31, 2011, if the Canadian dollar had weakened 10 percent against the US dollar with all other variables held constant, the net loss and comprehensive loss would have been $7,648 lower. Conversely, if the Canadian dollar had strengthened 10 percent against the US dollar with all other variables held constant, the net loss and comprehensive loss would have been $7,648 higher.

Fair value

The fair value of a financial instrument is equal to the amount at which this instrument could be traded knowingly and willingly between the parties involved. Fair value is based on the published prices (buy/ask prices) in an active market. If this is not the case, fair value is based on the prevailing market prices for instruments with similar risk profiles and characteristics or on internal or external valuation models that use observable market data.

The fair value of accounts receivable and accounts payable approximates their carrying values due to the short-term maturities of these items.

INTERNAL CONTROL OVER FINANCIAL REPORTING

There has been no changes in the Company's internal control over financial reporting that occurred during the Company's most recent quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal controls over financial reporting.

FORWARD LOOKING STATEMENTS

The quarterly report and the MD&A contained herein, include certain statements that are considered "forward-looking information" within the meaning of applicable securities legislation. Furthermore, the words "will", "may", "could", "should", "outlook", "believe", "plan", "envisage", "anticipate", "expect" and "estimate", or the negatives of these terms or variations of them and the use of the conditional tense as well as similar expressions denote forward-looking information.

Forward-looking information is based upon a number of assumptions and is subject to a number of risks and uncertainties, many of which are beyond the Company's control that could cause actual results to differ materially from those that are disclosed in or implied by such forward-looking information. These risks and uncertainties are described under the section "Risk factors" above.

Although the forward-looking information contained in this MD&A is based upon what the Company believes are reasonable assumptions, investors are cautioned against placing undue reliance on this information since actual results may vary from the forward-looking information. Consequently, all of the forward-looking information contained in this MD&A are qualified by the foregoing cautionary statements, and there can be no guarantee that the results or developments anticipated by the Company will be realized or, even if substantially realized, that they will have the expected consequences or effects on the Company, its business, financial condition or results of operation.

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 Management, Discussion and Analysis has been prepared as of May 10, 2011. 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.

France Tremblay
Acting Chief Financial Officer

May 10, 2011

CONDENSED UNAUDITED INTERIM FINANCIAL STATEMENTS FOR THE THREE-MONTH PERIODS ENDED MARCH 31, 2011 AND 2010

Notice from Management

The following condensed interim financial statements have been prepared on an IFRS base and have not been subject to an external audit.

STATEMENTS OF LOSS AND COMPRENSIVE LOSS (Unaudited)
Three-month period ended March 31

	Notes	FIRST QUARTER 2011 $	2010[1)] $
Sales		**136,628**	144,228
License Revenues	16	**52,569**	44,046
		189,197	188,274
Expenses			
Operating		**325,068**	340,492
Sales & Marketing		**158,739**	313,043
Research & Development		**849,706**	705,055
Administrative		**795,802**	903,912
Net Financial	4	**(60,108)**	(17,672)
		2,069,207	2,244,830
Net Loss and Comprehensive Loss		**1,880,010**	2,056,556
Basic and Diluted Net Loss per Share	17	**0.03**	0.04

Reference: See note 4 for additional information

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

1) Certain comparative figures have been restated and/or reclassified to conform to the current year IFRS presentation. See notes 2 and 19 for more details.

STATEMENTS OF CHANGES IN EQUITY (Unaudited)

	Notes	Share capital $	Reserve – Stock option plan $	Reserve - Warrants $	Deficit $	Total $
Balance at January 1, 2010[1)]		73,212,096	3,240,209	4,870,179	(66,590,187)	14,732,297
Issuance of share capital	12	16,000,000	-	-	-	16,000,000
Options exercised	12	66,050	(19,397)	-	-	46,653
Stock-based compensation		-	38,374	-	-	38,374
Compensation to underwriters		-	-	620,250	(620,250)	-
Share issue expenses		-	-	-	(1,233,027)	(1,233,027)
Net loss for the quarter		-	-	-	(2,056,556)	(2,056,556)
Balance at March 31, 2010		89,278,146	3,259,186	5,490,429	(70,500,020)	27,527,741
Balance at April 1, 2010		89,278,146	3,259,186	5,490,429	(70,500,020)	27,527,741
Options exercised	12	110,833	(47,761)	-	-	63,072
Stock-based compensation		-	114,905	-	-	114,905
Share issue expenses		-	-	-	(88,435)	(88,435)
Net loss for the period		-	-	-	(5,707,664)	(5,707,664)
Balance at December 31, 2010[1)]		89,388,979	3,326,330	5,490,429	(76,296,119)	21,909,619
Balance at January 1, 2011		89,388,979	3,326,330	5,490,429	(76,296,119)	21,909,619
Options exercised	12	8,496	(3,636)	-	-	4,860
Stock-based compensation		-	25,209	-	-	25,209
Net loss for the quarter		-	-	-	(1,880,010)	(1,880,010)
Balance at March 31, 2011		89,397,475	3,347,903	5,490,429	(78,176,129)	20,059,678

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

[1)] Certain comparative figures have been restated and/or reclassified to conform to the current year IFRS presentation. See notes 2 and 19 for more details.

STATEMENTS OF FINANCIAL POSITION (Unaudited)

	Notes	**As at March 31 2011 $**	As at December 31 2010[1] $	As at January 1 2010[1] $
Current Assets				
Cash and cash equivalents	5	**15,375,638**	9,107,143	6,727,088
Temporary investments	5	**1,454,748**	10,012,864	3,944,757
Accounts receivable		**534,393**	437,816	1,333,178
Inventories	6	**1,717,710**	1,460,304	1,483,810
Prepaid expenses		**50,750**	58,512	111,528
		19,133,239	21,076,639	13,600,361
Property, Plant and Equipment	7	**845,214**	896,887	1,123,109
Intangible Assets	8	**3,369,730**	3,400,179	3,549,189
		23,348,183	25,373,705	18,272,659
Current Liabilities				
Accounts payable		**1,141,886**	1,173,855	1,487,820
Warranty provision	10	**18,390**	27,189	209
Deferred revenues	11	**489,827**	572,071	633,483
		1,650,103	1,773,115	2,121,512
Non-current Deferred Revenues	11	**1,638,402**	1,690,971	1,418,850
		3,288,505	3,464,086	3,540,362
Equity				
Share capital	12	**89,397,475**	89,388,979	73,212,096
Reserve – Stock option plan		**3,347,903**	3,326,330	3,240,209
Reserve – Warrants		**5,490,429**	5,490,429	4,870,179
Deficit		**(78,176,129)**	(76,296,119)	(66,590,187)
		20,059,678	21,909,619	14,732,297
		23,348,183	25,373,705	18,272,659

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

[1] Certain comparative figures have been restated and/or reclassified to conform to the current year IFRS presentation. See notes 2 and 19 for more details.

STATEMENTS OF CASH FLOWS (Unaudited)
Three-month period ended March 31

	Notes	FIRST QUARTER 2011 $	2010[1)] $
Cash Flows from Operating Activities			
Net Loss		**(1,880,010)**	(2,056,556)
Adjustments for:			
Amortization of property, plant and equipment		**77,052**	93,759
Amortization of intangible assets		**77,768**	80,390
Change in the value of temporary investments		**(13,085)**	18,474
Stock-based compensation		**25,209**	38,374
		(1, 713,066)	(1,825,559)
Changes in non-cash operating working capital items		**(521,802)**	711,341
Cash flows used in operating activities		**(2,234,868)**	(1,114,218)
Cash Flows from Investing Activities			
Acquisition of temporary investments		**-**	(12,000,000)
Disposal of temporary investments		**8,571,201**	13,503,833
Acquisition of property, plant and equipment		**(25,379)**	(20,788)
Acquisition of intangible assets		**(47,319)**	(33,454)
Cash flows generated by investing activities		**8,498,503**	1,449,591
Cash Flows from Financing Activities			
Issuance of share capital		**-**	16,000,000
Payment for share issue expenses		**-**	(1,233,027)
Options exercised	12	**4,860**	46,653
Cash flows generated by financing activities		**4,860**	14,813,626
Increase in Cash and Cash Equivalents		**6,268,495**	15,148,999
Cash and Cash Equivalents at the beginning		**9,107,143**	6,727,088
Cash and Cash Equivalents at the end		**15,375,638**	21,876,087

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

[1)] Certain comparative figures have been restated and/or reclassified to conform to the current year IFRS presentation. See notes 2 and 19 for more details.

NOTES TO THE FINANCIAL STATEMENTS (Unaudited)

Three-month period ended March 31

1. Description of Business

The Company was incorporated in Canada on June 10, 1998 under Part 1A of the Companies Act (Québec). Its activities encompass research, development and commercialization and licensing of sterilization processes and accessories for heat-sensitive medical devices. The head office of the Company is located at 2505, avenue Dalton, Québec (Québec), Canada.

2. Accounting Policies

Statement of Compliance

These condensed interim financial statements are in compliance with International Accounting Standard 34 - Interim Financial Reporting ("IAS 34"). Accordingly, certain information and footnote disclosure normally included in annual financial statements prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board (IASB), have been omitted or condensed. A reconciliation between previous Generally Accepted Accounting Principles (Canadian GAAP) and IFRS is available in note 19.

Presentation Currency and Foreign Currency Translation

The condensed interim financial statements are presented in Canadian dollars, which is the functional currency of the Company.

Foreign currency transactions are translated into Canadian dollars as follows: monetary assets and liabilities are translated at the exchange rates in effect at the financial position date, non-monetary assets and liabilities are translated at historical rates, revenues and expenses are translated at the exchange rates in effect at the time of the transaction and exchange gains or losses resulting from translation are carried to earnings.

Revenue Recognition

<u>Sales</u>

The Company generates revenue from the sale of sterilization units, parts, supplies and accessories related to these units. For such sales, the Company recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred, the price to the buyer is fixed or determinable and collection is reasonably assured.

In addition, the Company earns revenue from service contracts that is recognized using the straight-line method over the term of each contract.

NOTES TO THE FINANCIAL STATEMENTS (Unaudited)
Three-month period ended March 31

2. Accounting Policies (cont'd)

Revenue from Financial Instruments

Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Company and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

License Revenues

The Company also generates license revenue resulting from a commercial agreement with 3M™ (See note 11).

Stock-based Compensation

The Company uses the fair value method to measure compensation expense at the date of grant of stock options to employees. Fair value is determined using the Black-Scholes option pricing model and is amortized to earnings over the vesting period with an offset to the Reserve for stock option plan. The amortization of the fair value is based on a graded vesting approach over the vesting period, and takes into consideration an estimation of the number of equity instruments which rights may be acquired. When options are exercised, the corresponding Reserve for stock option plan and the proceeds received by the Company are credited to share capital.

Government Assistance and Research and Development Tax Credits

Government assistance is recorded in the financial statements when there is reasonable assurance that the Company has complied with, and will continue to comply with, all of the conditions necessary to obtain the assistance.

The Company incurs research and development expenses that are eligible for tax credits. The recorded tax credits are based on management's estimates of amounts expected to be recovered and are subject to audit by taxation authorities.

Government assistance, including the tax credits for scientific research and experimental development costs, is presented against the related cost-expense.

NOTES TO THE FINANCIAL STATEMENTS (Unaudited)
Three-month period ended March 31

2. Accounting Policies (cont'd)

Inventories

The cost of inventories is essentially determined using the first in, first out method. The cost of work in progress and finished goods comprises the cost of raw materials and an applicable share of the cost of labour and manufacturing overhead based on normal production capacity. Inventories are valued at the lower of cost and net realizable value.

When impairment is recognized, a new assessment of net realizable value is performed in each subsequent period. When the circumstances that justified writing down the inventories below cost no longer exist, or when there is a clear indication of an increase in net realizable value due to a change in the economic situation, the amount of the write-down is reversed such that the new carrying amount is the lower of the cost or the revised net realizable value.

Property, Plant and Equipment

Property, plant and equipment are recorded initially and subsequently at cost less amortization and impairment. Amortization is calculated using the straight-line method over their estimated useful life, as follows:

Office furniture and lift truck	10 years
Equipment and tools for production and R&D	7 years
Sterilizers used in R&D	5 years
Stand	5 years
Hospital equipment	3 years
Computer equipment	3 years
Leasehold improvements	Lease term

Intangible Assets

Intangible assets are recorded initially and subsequently at cost less amortization and impairment. Amortization is calculated using the straight-line method over their estimated useful lives, as follows:

Acquired in a business combination	
Technology	20 years
Acquired externally	
Patents	20 years
Licence	16 years
Software	3 years
Trademarks	10 and 15 years
Web site	3 years

NOTES TO THE FINANCIAL STATEMENTS (Unaudited)
Three-month period ended March 31

2. Accounting policies (cont'd)

Impairment of Property, Plant and Equipment and Intangible Assets

At the end of each reporting period, assets are reviewed to look for any indication that an asset may be impaired. If impairment is indicated, the asset's recoverable amount is calculated to establish the amount of the impairment loss, if any. If it is not possible to determine the recoverable amount for an individual asset, then the recoverable amount of the asset's cash generating unit is determined.

The recoverable amount is the higher of an asset's fair value less cost to sell and its value in use. Value in use is the present value of estimated future cash flows discounted at pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the asset for which estimated future cash flows were not adjusted.

If the asset's (or a cash generating unit's) estimated recoverable amount is lower than its carrying amount, the asset's (or the cash generating unit's) carrying amount is brought down to its recoverable amount. An impairment loss is immediately recognised in profit or loss.

Warranty Provision

The Company offers a standard 12-month warranty to its clients. The estimated cost of the warranty is based on the following: the Company's history with defective sterilization units and the parts and accessories for these units, the probability that these defects will arise and the costs to repair them.

Warrants

The Company uses the fair value method to measure the value of warrants at the grant date. Fair value is determined using the Black-Scholes option pricing model and is recorded in the deficit with an offset to the Reserve for warrants. When warrants are exercised, the corresponding Reserve for warrants and the proceeds received by the Company are credited to share capital.

Financial Instruments

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially recognized at fair value and subsequent measurement depends on how they are classified, which is described below. Their classification depends on the purpose for which the financial instruments were acquired or issued, their characteristics, and the designation made by the Company. Settlement date accounting is used.

NOTES TO THE FINANCIAL STATEMENTS (Unaudited)
Three-month period ended March 31

2. Significant Accounting Policies (cont'd)

Classification

Cash	Loans and receivables
Cash equivalents	Held for trading
Temporary investments	Held for trading
Accounts receivable	Loans and receivables
Accounts payable	Other liabilities

Cash and Cash Equivalents

Cash and cash equivalents include cash, bonds with maturities of three months or less and money market funds. These investments are highly liquid and are held for the purpose of meeting short-term cash commitments. Cash equivalents are recorded at fair value. Increases and decreases in fair value are recognized as investment income and presented under "Change in the value of investments held as cash and cash equivalents" in the "Net financial" of the Statement of Loss and Comprehensive Loss.

Temporary Investments

Temporary investments are instruments held for trading because they will be used for short term cash needs. These investments are recorded at fair value. Increases and decreases in fair value are recognized as investment income and presented under "Change in the value of temporary investments" in the "Net financial" of the Statement of Loss and Comprehensive Loss.

Loans and Receivables

Loans and receivables are accounted for at amortized cost using the effective interest method.

Other Liabilities

Other liabilities are recorded at amortized cost using the effective interest method.

Transaction Costs

Transaction costs related to held-for-trading financial assets are expensed as incurred. Transaction costs related to other liabilities and to loans and receivables are added to the carrying value of the asset or are netted against the carrying value of the liability and are then recognized over the expected life of the instrument using the effective interest method.

NOTES TO THE FINANCIAL STATEMENTS (Unaudited)
Three-month period ended March 31

2. Significant Accounting Policies (cont'd)

Fair Value

The fair value of a financial instrument is equal to the amount at which this instrument could be traded knowingly and willingly between the parties involved. Fair value is based on the published prices (buy/ask prices) in an active market. If this is not the case, fair value is based on the prevailing market prices for instruments with similar risk profiles and characteristics or on internal or external valuation models that use observable market data.

The fair value of cash, accounts receivable and accounts payable approximates their carrying values due to the short-term maturities of these items.

Critical Accounting Judgements and Key Source of Estimation Uncertainty

In the application of the Company's accounting policies, which are described in this note, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The following are the critical judgements and key sources of estimation:

- Recoverability of intangible assets
- Inventory evaluation
- Useful lives of property, plant and equipment
- Government assistance and research and development tax credits

For all these items, relevant accounting policies are discussed in the other parts of Note 2.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both the current and future periods.

3. Future Accounting Changes

IFRS 9 - Financial Instruments, issued in November 2009, introduces new requirements for the classification and measurement of financial assets, financial liabilities and for derecognition. IFRS 9 will be effective for annual periods beginning on January 1, 2013, with earlier application permitted.

NOTES TO THE FINANCIAL STATEMENTS (Unaudited)
Three-month period ended March 31

3. Future Accounting Changes (cont'd)

IFRS 9 requires all recognized financial assets that are within the scope of IAS 39 - Financial Instruments: Recognition and Measurement to be subsequently measured at amortized cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

The Company anticipates that IFRS 9 will be adopted for the annual period beginning January 1, 2013. At this moment, it is not practicable to provide a reasonable estimate of the effect until a detailed review has been completed.

4. Additional Information on Statement of Loss and Comprehensive Loss

	March 31 2011 $	March 31 2010 $
Detail of net financial		
Investment income	**(1,437)**	(885)
Change in the value of investments held as cash and cash equivalents	**(51,364)**	(3,399)
Change in the value of temporary investments	**(13,085)**	18,474
Foreign exchange loss (gain)	**3,469**	(34,015)
Bank charges	**1,217**	1,220
Miscellaneous interests	**1,092**	933
	(60,108)	(17,672)
Expenses (revenues) included in different functions		
Salaries and other benefits	**1,206,582**	1,352,645
Amortization of property, plant and equipment	**77,052**	93,759
Amortization of intangible assets	**77,768**	80,390
Government Assistance (Administrative expenses)	**-**	(5,860)
Research & Development tax credits (included in R&D expenses)	**(75,000)**	(76,000)

NOTES TO THE FINANCIAL STATEMENTS (Unaudited)
Three-month period ended March 31

5. Financial Instruments

Cash and Cash Equivalents

	March 31 2011 $	December 31 2010 $
Cash	**716,632**	1,470,708
Short-term investments less than three months		
Bonds	**2,536,441**	2,991,846
Money market funds	**12,122,565**	4,644,589
	15,375,638	9,107,143

Bonds maturing at various dates through June 2011, and having an average yield of 1.18% (0.90% as of December 2010). As of March 31, 2011 bonds held were rated AAA and A+ (A+ as of December 31, 2010) and money market funds held were rated AA- (AA- as of December 31, 2010)

Temporary Investments

	March 31 2011 $	December 31 2010 $
Bonds	**1,454,748**	10,012,864

Bond maturing in December 2011 and having a yield of 1.79% (1.21% as of December 31, 2010). As of March 31, 2011, bond held was rated A+ (AAA et A+ as of December 31, 2010).

6. Inventories

	March 31 2011 $	December 31 2010 $
Raw materials	**1,014,255**	978,963
Work in progress	**563,313**	373,528
Finished goods	**140,142**	107,813
	1,717,710	1,460,304

Operating expenses include a cost of goods sold charge of $73,130 ($100,595 for the first quarter of 2010), including a write-down of $0 ($1,105 for raw materials for the first quarter of 2010).

NOTES TO THE FINANCIAL STATEMENTS (Unaudited)
Three-month period ended March 31

7. Property, Plant and Equipment

	Office furniture $	Lift truck $	Equipment and tools for production and R&D $	Sterilizers used in R&D $	Stand $	Hospital equipment $	Computer equipment $	Leasehold Improve-ments $	Total $
Cost									
Balance at January 1, 2011	185,970	14,115	1,053,298	431,445	22,735	180,810	491,176	195,598	2,575,147
Additions	-	-	23,520	-	-	-	1,859	-	25,379
Balance at March 31, 2011	185,970	14,115	1,076,818	431,445	22,735	180,810	493,035	195,598	2,600,526
Accumulated amortization									
Balance at January 1, 2011	105,329	11,998	689,672	189,294	18,593	38,366	458,677	166,331	1,678,260
Amortization	4,035	353	23,944	21,572	476	15,069	5,872	5,731	77,052
Balance at March 31, 2011	109,364	12,351	713,616	210,866	19,069	53,435	464,549	172,062	1,755,312
Net book value at March 31, 011	76,606	1,764	363,202	220,579	3,666	127,375	28,486	23,536	845,214

NOTES TO THE FINANCIAL STATEMENTS (Unaudited)
Three-month period ended March 31

7. Property, Plant and Equipment (cont'd)

	Office furniture $	Lift truck $	Equipment and tools for production and R&D $	Sterilizers used in R&D $	Stand $	Hospital equipment $	Computer equipment $	Leasehold Improvements $	Total $
Cost									
Balance at January 1, 2010	185,970	14,115	955,850	609,211	22,735	24,694	484,966	232,316	2,529,857
Additions	-	-	97,448	-	-	156,116	12,387	25,380	291,331
Disposals	-	-	-	-	-	-	(6,177)	-	(6,177)
Write-down	-	-	-	(177,766)	-	-	-	(62,098)	(239,864)
Balance at December 31, 2010	185,970	14,115	1,053,298	431,445	22,735	180,810	491,176	195,598	2,575,147
Accumulated amortization									
Balance at January 1, 2010	87,346	10,586	518,256	147,919	15,680	4,116	421,226	201,619	1,406,748
Amortization	17,983	1,412	171,416	121,842	2,913	34,250	43,404	26,810	420,030
Eliminated on disposals of assets	-	-	-	-	-	-	(5,953)	-	(5,953)
Eliminated on write-down of assets	-	-	-	(80,467)	-	-	-	(62,098)	(142,565)
Balance at December 31, 2010	105,329	11,998	689,672	189,294	18,593	38,366	458,677	166,331	1,678,260
Net book value at December 31, 2010	80,641	2,117	363,626	242,151	4,142	142,444	32,499	29,267	896,887

NOTES TO THE FINANCIAL STATEMENTS (Unaudited)
Three-month period ended March 31

8. Intangible Assets

	Technology $	Patents $	Licence $	Software $	Trademarks $	Web site $	Total $
Cost							
Balance at January 1, 2011	2,978,874	743,870	991,063	520,375	76,642	54,691	5,365,515
Additions	-	14,868	-	2,856	9,896	19,699	47,319
Balance at March 31, 2011	2,978,874	758,738	991,063	523,231	86,538	74,390	5,412,834
Accumulated amortization							
Balance at January 1, 2011	893,663	113,858	433,590	461,552	13,289	49,384	1,965,336
Amortization	37,236	9,484	15,485	11,037	2,000	2,526	77,768
Balance at March 31, 2011	930,899	123,342	449,075	472,589	15,289	51,910	2,043,104
Net book value at March 31, 2011	2,047,975	635,396	541,988	50,642	71,249	22,480	3,369,730

	Technology $	Patents $	Licence $	Software $	Trademarks $	Web site $	Total $
Cost							
Balance at January 1, 2010	2,978,874	617,789	991,063	503,187	40,628	54,691	5,186,232
Additions	-	126,081	-	17,188	36,014	-	179,283
Balance at December 31, 2010	2,978,874	743,870	991,063	520,375	76,642	54,691	5,365,515
Accumulated amortization							
Balance at January 1, 2010	744,719	78,545	371,649	388,264	8,020	45,846	1,637,043
Amortization	148,944	35,313	61,941	73,288	5,269	3,538	328,293
Balance at December 31, 2010	893,663	113,858	433,590	461,552	13,289	49,384	1,965,336
Net book value at December 31, 2010	2,085,211	630,012	557,473	58,823	63,353	5,307	3,400,179

NOTES TO THE FINANCIAL STATEMENTS (Unaudited)
Three-month period ended March 31

9. Credit Facilities

The Company has a line of credit with which it can obtain advances up to a maximum of $350,000. This line of credit, which is renewable on an annual basis, bears interest at prime rate plus 2%. The Company's accounts receivable and inventories are pledged as security on this line of credit, and the Company must comply with certain financial ratios (see note 15) usually found in this type of loan. As of March 31, 2011, this line of credit was undrawn.

10. Warranty Provision

	March 31 2011	December 31 2010
	$	$
Balance at beginning	**27,189**	209
Additional provisions recognized	**682**	58,643
Amounts used during the period	**(1,610)**	(7,218)
Unused amounts reversed during the period	**(7,871)**	(24,445)
Balance at the end	**18,390**	27,189

11. License Revenues and Deferred Revenues related to License

The license revenues and deferred revenues result from a commercial agreement with 3M™. This agreement includes license revenues that were paid upon signing, and additional payments based on achieving certain objectives. These deferred revenues are recognized on a straight line basis over the term of the agreement.

As of March 31, 2011, an amount of $1,638,402 ($1,690,971 as of December 31, 2010) is presented in the non-current deferred revenues and an amount of $210,275 ($210,275 in 2010) is included in current deferred revenues.

12. Share-Capital

Authorized

An unlimited number of shares

Common, voting, participating, without par value

Class A, voting, participating, with a par value of $1.00 each

Class B, voting, participating, without par value

NOTES TO THE FINANCIAL STATEMENTS (Unaudited)
Three-month period ended March 31

12. Share-Capital (cont'd)

Issued and paid		March 31 2011		December 31 2010
	Number of common shares	$	Number of common shares	$
Balance at beginning	58,022,451	89,388,979	47,867,568	73,212,096
New issue	-	-	10,000,000	16,000,000
Options exercised	3,600	8,496	154,883	176,883
Balance at end	58,026,051	89,397,475	58,022,451	89,388,979

In 2011, holders exercised certain options; they subscribed for 3,600 shares for a cash consideration of $4,860. For the same quarter in 2010, they subscribed for 40,555 shares for a cash consideration of $46,653. .

Employee Stock Purchasing Plan

On May 2, 2007, the Company set up an employee stock purchasing plan for employees and executives. Eligible participants may contribute, in the form of payroll deductions, up to 5% of their basic salary. The Company contributes an amount equal to 50% of the participant's total monthly contribution.

Every month, the participant and Company contributions are remitted to a brokerage firm that uses the entire balance of the contributions to purchase, on the open market and on the last day of the month, shares to the nearest whole number.

13. Reserve – Stock Option Plan

The Company's board of directors adopted a stock option plan solely for directors, executives, employees and service providers of the Company, which was approved by its shareholders. The total number of common shares from the Company's share capital that can be issued under this plan as at March 31, 2011 is 4,390,924. The total number of common shares reserved for the exercise of stock options in favour of a holder cannot, at any time, represent more than 5% of the Company's common shares issued and outstanding at the time of granting less the total number of options already exercised by this person from any other stock options. The options granted pursuant to this plan, which vest over a three-year period, may be exercised within a maximum of 10 years of the grant date.

During the first quarter of 2011, the Company awarded 28,000 stock options to its directors at a weighted average exercise price of $1.65. The weighted average fair value of these stock options was $1.17 per option.

NOTES TO THE FINANCIAL STATEMENTS (Unaudited)
Three-month period ended March 31

13. Reserve – Stock Option Plan (cont'd)

The stock-based compensation expense pertaining to the options granted has been amortized using the graded vesting method and give a stock-based compensation expense of $25,209 for the first quarter of 2011 ($38,374 for the first quarter of 2010) presented in "Administrative expenses."

The fair value of the stock options granted is estimated using the Black-Scholes option pricing model under the following weighted average assumptions:

	March 31 2011	December 31 2010
Acquisition date share price	**$1.65**	$1.47
Exercise price	**$1.65**	$1.47
Risk free interest rate	**2.860%**	3.120%
Expected share price volatility	**74.47%**	72.00%
Expected life	**7 years**	10 years
Expected dividend yield	**0%**	0%

The Black-Scholes option 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. The Black-Scholes option pricing model has been modified for considering an estimation of the number of equity instruments which rights may be acquired. In addition, option pricing models require highly subjective valuations and include the expected stock price volatility of the underlying shares. Expected volatility, for the 2011 grants, was determined by calculating the historical volatility of the company's share price to the date of grant since March 2004. Any changes in the assumptions can materially affect the fair value estimates.

	March 31, 2011		December 31, 2010	
	Number	**Weighted average exercise price $**	Number	Weighted average exercise price $
Outstanding at beginning	**3,338,415**	**1.05**	4,179,544	1.20
Granted	**28,000**	**1.65**	78,000	1.47
Exercised	**(3,600)**	**1.35**	(154,883)	0.71
Expired	**(103,362)**	**1.85**	(584,491)	1.85
Forfeited	**(34,968)**	**1.99**	(179,755)	2.09
Outstanding at end	**3,224,485**	**1.01**	3,338,415	1.05
Exercisable at end	**2,440,970**	**1.16**	2,548,815	1.20

NOTES TO THE FINANCIAL STATEMENTS (Unaudited)
Three-month period ended March 31

13. Reserve – Stock Option Plan (cont'd)

The following table summarizes certain information regarding the stock options of the Company as of March 31, 2011:

	Outstanding options		Exercisable options	
Exercise price	**Number**	**Average remaining contractual life (years)**	**Number**	**Average remaining contractual life (years)**
$0.24 to $1.94	2,831,697	6.08	2,048,182	5.50
$2.20 to $2.90	264,604	5.70	264,604	5.70
$3.10 to $3.45	128,184	3.79	128,184	3.79
	3,224,485	5.98	2,440,970	5.44

14. Reserve - Warrants

Upon the issuance of 16,000,000 shares on March 2, 2010, 750,000 warrants were granted. Each warrant can be used to purchase one common share of the Company at a price of $1.60 and expire on August 2011.

	March 31, 2011		December 31, 2010	
	Number	**Exercise price $**	Number	Exercise price $
Outstanding at beginning	**750,000**	**1.60**	-	-
Granted	**-**	**-**	750,000	1.60
Outstanding at end	**750,000**	**1.60**	750,000	1.60
Exercisable at end	**750,000**	**1.60**	750,000	1.60

15. Capital Management

The Company needs capital primarily to finance its research and development activity, its operating, administrative and marketing expenses, its working capital and its capital expenditures. In the past, the Company has financed its activities through various rounds of public and private financing as well as through government grants. Depending on its capacities and prevailing market conditions, the Company could finance all or a portion of its non-current assets through long-term debt.

NOTES TO THE FINANCIAL STATEMENTS (Unaudited)
Three-month period ended March 31

15. Capital Management (suite)

For the three-month period which ended March 31, 2011, the monthly burn-rate was $769,189. At the actual pace, the Company believes that its current liquid assets will be sufficient to finance its activities into 2013.

The Company has a line of credit that it can use to obtain advances up to a maximum of $350,000. To maintain this credit line, the Company must comply with two financial ratios: the working capital ratio and the net worth ratio. Although the credit line has not been drawn, the Company reviews these ratios every month. As of March 31, 2011, the Company was in compliance with these ratios.

16. Segmented Information

The Company is structured as a single operating segment.

All fixed assets of the Company are located in Canada.

Operating revenues are allocated between geographic areas based on the location of the client and are as follows for the three-month period ended March 31.

				FIRST QUARTER
		2011		2010
	$	**%**	$	%
Canada	**61,322**	**45**	60,514	42
United States and others	**75,306**	**55**	83,714	58
	136,628	**100**	144,228	100

The Company earns an important part of its revenues from a customer with which a commercial agreement was signed. These revenues represented 7% of the Company's quarterly sales (0% in the first quarter of 2010).

License revenues in the amount of $52,569 ($44,046 in 2010), also resulted from this commercial agreement (See note 11).

NOTES TO THE FINANCIAL STATEMENTS (Unaudited)
Three-month period ended March 31

17. Loss per Share

The following table reconciles the basic and the diluted loss per share for the three-month period ended March 31:

	FIRST QUARTER	
	2011	2010
	$	$
Net Loss		
Basic and Diluted	**1,880,010**	2,056,556
Number of shares		
Weighted average number of outstanding share [1)]	**58,024,508**	51,227,865
Loss per Share		
Basic	**0.03**	0.04
Diluted [2)]	**0.03**	0.04

1) The calculation of the weighted average number of outstanding shares is determined as a function of the number of outstanding common shares based on the fraction of the period during which the shares were outstanding.

2) The weighted average number of outstanding shares is the same number used in the calculation of the diluted net loss per share since the inclusion of potential common shares, from the exercise of options and warrants, in the calculation of the diluted per share amount of a loss, is anti-dilutive.

18. Approval of Financial Statements

The financial statements were approved by the Board of Directors on May 10, 2011.

19. Transition to IFRS

The Company's financial statements for the three-month period which ended on March 31, 2011 are the first condensed interim financial statements that comply with IAS 34 and they were prepared as described in note 2, including the application of IFRS 1 – First time adoption of International Financial Reporting Standards.

IFRS 1 requires that comparative financial information be provided. As a result, the first date at which the Company has applied IFRS was January 1, 2010 (the "Transition Date"). IFRS 1 requires first-time adopters to retrospectively apply all effective IFRS standards but it also provides for certain optional exemptions and certain mandatory exceptions for first time IFRS adopters. The Company uses IFRS effective as of the reporting date, March 31, 2011.

Initial Elections upon Adoption

Set forth below are the IFRS 1 applicable exemptions and exceptions applied in the conversion from previous Canadian GAAP to IFRS:

NOTES TO THE FINANCIAL STATEMENTS (Unaudited)
Three-month period ended March 31

19. Transition to IFRS (cont'd)

IFRS Exemption Options

a) **Share-based Payments** – IFRS 2 - Share-based payments, encourages application of its provision to equity instruments granted on or before November 7, 2002, but permits the application of IFRS 2 only to equity instruments granted after November 7, 2002 that had not vested by the Transition Date. The Company elected to avail itself of the exemption provided under IFRS 1 and applied IFRS 2 for all equity instruments granted after November 7, 2002 that had not vested by January 1, 2010.

b) **Deemed Cost** – IFRS 1 includes an optional exemption that relieves first-time adopters from the requirement to recreate cost information for property, plant and equipment. Given the type of capital assets held, the Company accounted for them as at the transition date at their depreciated cost in accordance with IAS 16 rather than at their fair value on this date. The adjustments are explained in the reconciliations.

c) **Designation of previously recognized financial instruments** – IFRS 1 permits first-time adopter to re-designate financial instruments on the transition date. The company reviewed the classification of its temporary investments and decided to maintain its prior designation under IFRS.

d) **Business Combination** – IFRS 1 permits first-time adopter not to apply IFRS 3 retrospectively to past business combinations (business combinations that occurred before the date of transition to IFRS). For this reason, the Company decided not to retrospectively restate business combinations that occurred prior to January 1, 2010.

IFRS Mandatory Exceptions

a) **Estimates** – Hindsight is not used to create or revise estimates. The estimates previously made by the Company under Canadian GAAP were not revised for application of IFRS except where necessary to reflect any differences in accounting policies.

NOTES TO THE FINANCIAL STATEMENTS (Unaudited)
Three-month period ended March 31

19. Transition to IFRS (cont'd)

Reconciliation of Equity as of January 1, 2010

	Canadian GAAP Balance $	IFRS Reclassifications $	IFRS Adjustments $	IFRS Balance $
Share capital	73,212,096	-	-	73,212,096
Reserve – Stock option plan	-	3,240,209 1)	-	3,240,209
Reserve – Warrants	-	4,870,179 1)	-	4,870,179
Contributed surplus	8,110,388	(8,110,388) 1)	-	-
Deficit	(66,456,957)	-	(133,230) 2)	(66,590,187)
	14,865,527	-	(133,230)	14,732,297

1) The contributed surplus has been reclassified according to the nature of the different elements of which it consists.

2) This adjustment results from a change in accounting policies for property, plant and equipment. The Company has decided to change its current diminishing balance method use for tangible assets for the straight-line method. A retrospective application has been made and the opening balance of Deficit has of January 1, 2010 has been adjusted. As a result, the balance of property, plant and equipment has been reduced of $133,230.

Reconciliation of Equity as of March 31, 2010

	Canadian GAAP Balance $	IFRS Reclassifications $	IFRS Adjustments $	IFRS Balance $
Share capital	89,278,146	-	-	89,278,146
Reserve – Stock option plan	-	3,259,186 1)	-	3,259,186
Reserve – Warrants	-	5,490,429 1)	-	5,490,429
Contributed surplus	8,749,615	(8,749,615) 1)	-	-
Deficit	(70,344,166)	-	(155,854) 2)	(70,500,020)
	27,683,595	-	(155,854)	27,527,741

1) The contributed surplus has been reclassified according to the nature of the different elements of which it consists.

2) This adjustment results from a change in accounting policies for property, plant and equipment. The Company has decided to change its current diminishing balance method use for tangible assets for the straight-line method. A retrospective application has been made and the opening balance of Deficit has of January 1, 2010 has been adjusted. As a result, the balance of property, plant and equipment has been reduced of $155,854.

NOTES TO THE FINANCIAL STATEMENTS (Unaudited)
Three-month period ended March 31

19. Transition to IFRS (cont'd)

Reconciliation of Statements of Loss and Comprehensive Loss for three month period ended March 31, 2010

	Canadian GAAP Balance $	IFRS Reclassifications $	IFRS Adjustments $	IFRS Balance $
Sales	144,228	-	-	144,228
License revenues	-	44,046 1)	-	44,046
	144,228	44,046	-	188,274
Expenses				
Operating	341,336	-	(844) 2)	340,492
Sales and Marketing	313,358	-	(315) 2)	313,043
Research and Development	758,344	(76,000) 1)	22,711 2)	705,055
Administrative	909,793	(6,953) 1)	1,072 2)	903,912
Net Financial	2,153	19,825) 1)	-	(17,672)
	2,324,984	(102,778)	22,624	2,244,830
Other Income	146,824	(146,824) 1)	-	-
Net Loss	2,033,932	-	22,624	2,056,556

1) The Company has adopted a presentation by function for the Statement of Loss and Comprehensive Loss. Consequently, items included in "other income" under Canadian GAAP have been reclassified in different functions, according to their nature.

2) This adjustment results from a change in accounting policies for property, plant and equipment. The Company has decided to change its current diminishing balance method use for tangible assets for the straight-line method. A retrospective application has been made and the opening balance of Deficit has of January 1, 2010 has been adjusted. As a result, the balance of property, plant and equipment has been reduced of $22,624.

Reconciliation of Equity as of December 31, 2010

	Canadian GAAP Balance $	IFRS Reclassifications $	IFRS Adjustments $	IFRS Balance $
Share capital	89,388,979	-	-	89,388,979
Reserve – Stock option plan	-	3,326,330 1)	-	3,326,330
Reserve – Warrants	-	5,490,429 1)	-	5,490,429
Contributed surplus	8,816,759	(8,816,759) 1)	-	-
Deficit	(76,072,390)	-	(223,729) 2)	(76,296,119)
	22,133,348	-	(223,729)	21,909,619

1) The contributed surplus has been reclassified according to the nature of the different elements of which it consists.

NOTES TO THE FINANCIAL STATEMENTS (Unaudited)
Three-month period ended March 31

19. Transition to IFRS (cont'd)

2) This adjustment results from a change in accounting policies for property, plant and equipment. The Company has decided to change its current diminishing balance method use for tangible assets for the straight-line method. A retrospective application has been made and the opening balance of Deficit has of January 1, 2010 has been adjusted. As a result, the balance of property, plant and equipment has been reduced of $223,729.

Reconciliation of Statements of Loss and Comprehensive Loss for the fiscal year ended December 31, 2010

	Canadian GAAP Balance $	IFRS Reclassifications $	IFRS Adjustments $	IFRS Balance $
Sales	939,285	-	-	939,285
License revenues	-	201,504 1)	-	201,504
	939,285	201,504	-	1,140,789
Expenses				
Operating	1,631,383	-	(3,377) 2)	1,628,006
Sales and Marketing	989,256	-	(1,261) 2)	987,995
Research and Development	3,299,446	(265,948) 1)	90,848 2)	3,124,346
Administrative	3,245,913	(11,413) 1)	4,289 2)	3,238,789
Net Financial	10,417	(84,544) 1)	-	(74,127)
	9,176,415	(361,905)	90,499	8,905,009
Other Income	563,409	(563,409) 1)	-	-
Net Loss	7,673,721	-	90,499	7,764,220

1) The Company has adopted a presentation by function for the Statement of Loss and Comprehensive Loss. Consequently, items included in "other income" have been reclassified in different functions, according to their nature.

2) This adjustment results from a change in accounting policies for property, plant and equipment. The Company has decided to change its current diminishing balance method use for tangible assets for the straight-line method. A retrospective application has been made and the opening balance of Deficit has of January 1, 2010 has been adjusted. As a result, the balance of property, plant and equipment has been reduced of $90,499.

Reconciliation of Cash Flows

The Company's first time adoption of IFRS did not have an impact on presentation and on the total operating, investing or financing cash flows.

TSO_3 STERIZONE® Sterilizer U.S. Pat. No. 7,128,872 / 7,582,257 / 7,588,720 / 7,608,217
TSO_3 STERIZONE® Chemical Indicator U.S. Pat. No. 6,589,479
Licensed under U.S. Pat. No. 6,387,241 by Lynntech.
Other patents pending

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