2018 Quarterly Report

April, May, June

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Message from the President and Chief Executive Officer

Dear Valued Shareholders

On August 1, 2018, TSO_3 regained direct control of its commercial future – the Company announced it successfully secured a $20 million debt facility and ended its global distribution arrangements with Getinge.

TSO_3 now has clarity on the condition of its business. In North America, the Company has verified that over 50 STERIZONE® VP4 Sterilizers have been sold and installed; including units which have been sold but not yet installed, this number exceeds 70. The Company has also witnessed the initial impact of its own direct sales efforts. TSO_3 sales professionals assisted Getinge in closing sales of six sterilizers, which became part of the acquired Getinge backlog.

It is from here that the Company starts its direct commercial effort, having full accountability for customer development with a list of reputable customers, many having internally documented the value proposition of TSO_3's technology. Some of these centers have now become our reference sites, and TSO_3 has been channeling new customers through these sites at an increasing rate. That said, during the second quarter, the Company directly responded to tenders in the provinces of British Columbia and Quebec, neither have yet to be awarded.

During the quarter the Company received additional US regulatory clearances enabling on-label sterilization of complex multi-channeled endoscopes including gastroscopes, colonoscopes, and duodenoscopes. This claim becomes increasingly important as recent reports indicate growing concerns of persistent contamination. Recent report data indicates that 89% of healthcare institutions surveyed have implemented at least one of the suggested supplemental methods as outlined by the FDA and CDC when processing duodenoscopes. While these scopes have not been historically sterilized, we have seen a previously unfavored method, ethylene oxide (EO), regain some cycle share. This same report suggests that 12% of the surveyed facilities are using this slow, carcinogenic chemistry and environmental pollutant which is also known to increase the rate of repair rate of duodenoscopes. Most healthcare facilities do not maintain their own EO systems and are required to send instruments to outside locations or neighboring facilities which adds cost and time. Since receiving the US clearance in May of this year, the Company has been directly involved in assisting three facilities to adopt the process of sterilizing duodenoscopes with STERIZONE® VP4 Sterilizers. Additional facilities have requested support, and TSO_3 Clinical professionals have been actively providing information and education to these locations. There is a growing interest in our technology for this application, but like most large capital purchase decisions, it does not happen overnight. Based on the feedback we are receiving from current and potential customers, we believe our technology to be superior, and we have an FDA label for sterilization of complex multi-channeled endoscopes, something no other company can claim. In summary, the Company believes that displacing EO is the nearest term opportunity in our pursuit of transitioning gastrointestinal endoscope reprocessing toward terminal sterilization.

By making the business decision not to renew our global distribution agreement with Getinge, the conversion of customer from lead generation to revenue recognition will take time, but we believe our decision is best for the future of TSO_3.

R.M. Rumble

Overview

General Description

TSO_3 Inc. ("TSO_3" or the "Company") was founded in June 1998 in Québec City, Canada and employs 69 people as at June 30, 2018. The Company's activities encompass the sale, production, maintenance, research, development and licensing of sterilization processes, related consumable supplies and accessories for medical devices that are sensitive to heat and moisture. The Company designs products for sterile processing areas in medical facilities that offer an advantageous replacement solution to other low temperature sterilization and high-level disinfection processes currently used. TSO_3 also offers services related to the maintenance of sterilization equipment and compatibility testing of medical devices with such processes.

TSO_3 Corporation, the Company's wholly-owned subsidiary incorporated in 2015, is located in the State of South Carolina, USA and was established to meet US customer requirements. The US represents approximately 40% of the worldwide market for low-temperature sterilization equipment. The US location is used for sales and marketing, administration, engineering, warehousing and distribution of parts and consumables, laboratory services, conducting light assembly, and providing service and education to US customers.

Technology

TSO_3's principal product is the STERIZONE® VP4 Sterilizer. The STERIZONE® VP4 Sterilizer is a dual sterilant, low temperature sterilization system that utilizes vaporized hydrogen peroxide (H_2O_2) and ozone (O_3) as its sterilants. It is a product which evolved from the Company's STERIZONE® 125L+ Sterilizer, which was originally licensed by Health Canada (Canadian equivalent of the United States FDA) in 2009, CE marked in 2010 and of which the Company subsequently sold a number of units in Canada. All initial STERIZONE® 125L+ Sterilizers have been upgraded to the improved STERIZONE® VP4 Sterilizers and have been in continuous operation for a number of years.

In December 2014, TSO_3 achieved a major milestone when its STERIZONE® VP4 Sterilizer received 510(k) clearance from the Food and Drug Administration (FDA). In October 2015, the STERIZONE® VP4 Sterilizer received clearance from Health Canada to extend its claims in that country. The new claims included the ability to terminally sterilize multi-channel flexible endoscopes in the Canadian market and on July 4, 2016, TSO_3 announced that the FDA had also cleared TSO_3's expanded indications for use (IFU's) of its STERIZONE® VP4 Sterilizer to include multi-channel flexible endoscopes of up to 3.5 meters in length and four or fewer channels having internal lumens of ≥ 1.45 mm in inner diameter and ≤ 3,500 mm in overall length, and ≥ 1.2 mm in inner diameter and ≤ 1,955 mm in overall length.

TSO_3 established laboratory data validating the STERIZONE® VP4 Sterilizer, with its dual sterilants of hydrogen peroxide and ozone, can repeatedly sterilize duodenoscopes used in endoscopic retrograde cholangio-pancreatography (ERCP) procedures. On May 9, 2018, the Company announced that it has received expanded clearance from US regulators for its most recent 510(k) submission. The new clearances allow a hospital to terminally sterilize gastrointestinal endoscopes that have dimensions within the cleared intended use, such as certain colonoscopes, duodenoscopes and gastroscopes.

The STERIZONE® Sterilization System has now achieved a number of industry-firsts:

- First and only dual-sterilant sterilizer cleared by the FDA for sale in the US;
- First single cycle, low-temperature sterilizer cleared in the US, Europe and Canada to process a 75-pound load of general instruments, single channel flexible endoscopes, and rigid and semi-rigid channeled devices;
- First low temperature sterilizer validated and cleared in the US, Europe and Canada to sterilize multi-channeled endoscopes (with four or fewer channels) up to 3.5 metres in length such as video colonoscopes, duodenoscopes and gastroscopes.;

- First low-temperature sterilizer with a load-sensitive *Dynamic Sterilant Delivery System*™;
- First documented "wet" cycle with validated micro-condensation sterilant layer;
- First Biological Indicator Test Pack to survive past the first half-cycle.

As these technologies and claims are unique in the industry and significantly superior to incumbent technologies, the STERIZONE® Sterilization System can significantly improve efficiency, cost, risk mitigation and throughput in traditional central sterilization reprocessing departments in hospitals.

TSO_3's technologies also allow an industry first in terminal medical device sterilization: medical facilities now have an opportunity to terminally sterilize complex medical instruments such as colonoscopes, duodenoscopes, gastroscopes and other multi-channel flexible scopes, which previously could only be treated in a less effective process known as "high-level disinfection". Low temperature sterilization with the STERIZONE® VP4 Sterilizer offers a more robust solution than disinfection since it thoroughly destroys all types of microbiological organisms with a sterility assurance level of 10^{-6} (SAL^{-6}), including bacterial spores.

The Company's extended claims further expand its technology leadership – offering enhanced patient protection in applications where terminal sterilization was not previously possible – and correspond to increasing scrutiny by regulatory authorities over medical device reprocessing, particularly for colonoscopes, duodenoscopes and other complex medical devices used during minimally invasive surgical (MIS) and endoscopic procedures. Much of this concern stems from patient-to-patient transfer of multidrug resistant bacteria that have been transmitted even after cleaning and processing by high-level disinfection. Published reports confirm the significant health risk of device-related transfer of antibiotic resistant microbes, including patient injury or death.

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 and, in turn, leads to increased patient hospital stays, higher cost of care and greater mortality rates.

The world population is aging, with the fastest growing segment age 65+ expected to nearly double by 2020 from 2010, according to the United Nations. This aging population is expected to result in increasing demand for diagnostic procedures and surgical operations involving scopes and MIS devices, and thereby increase demand for efficacious and high-throughput sterilization methods that can process such devices, such as low temperature terminal sterilization systems.

Today, it is not uncommon to find sterile reprocessing of instruments conducted in three areas of a hospital: 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 therefore 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 operating rooms of the past. Currently, the trend continues towards the practice of MIS. Devices used in MIS are complex, expensive and delicate, and in most cases, do not tolerate the steam sterilization process. Instead, they require low-temperature sterilization. These high-demands, complex devices represent a major financial investment for hospitals as well as a challenge to sterilize.

Disinfection is significantly less effective than sterilization because it does not necessarily kill all harmful microorganisms, especially bacterial spores. Low temperature terminal sterilization offers an

increased level of safety, since it involves a process that thoroughly destroys all types of microbiological organisms with a sterility assurance level of 10^{-6} (SAL^{-6}).

Competitive Landscape

The Company competes in an industry characterized by both multinational and regional companies that market sterilization technologies, such as Getinge AB, STERIS Corporation, Johnson & Johnson, 3M Company, Cantel Medical Inc., Olympus Corporation, Custom Ultrasonics Inc., and Belimed AG.

The low-temperature vapour sterilization methods most commonly used today are hydrogen peroxide (H_2O_2) sterilization systems. These methods offer "terminal sterilization", which indicates the instruments are packaged and remain sterile until opened at the surgical site. Current H_2O_2 sterilization methods are fast, however they are very expensive to operate, and have limits as to efficacy and loading capacity based on their design.

Recently, a legacy technology, ethylene oxide (ETO), has seen some renewed interest based on its claim (albeit limited) to sterilize complex, multi-channeled flexible endoscopes. This renewed interest was created when US regulators suggested, in a document circulated in 2015, that ETO may be used as a supplemental method when reprocessing duodenoscopes as a means to render the devices safe for next patient use. ETO is a flammable, toxic, carcinogenic chemistry which is registered as an environmental pollutant. Due to the properties of the chemistry, the sterilization cycle is elongated in an attempt to remove the carcinogenic residuals from the instrument being sterilized. This add significant time and cost to the reprocessing of instruments. Lastly, ETO inflicts increased damage on delicate flexible instruments further increasing the cost associated with its use.

Other methods that play a role in a sub-segment of low temperature reprocessing include liquid high-level disinfection and liquid chemical sterilization. These are just-in-time methods of reprocessing and are not considered terminal sterilization. They are used to complement the central sterilization department's sterile production. The gastrointestinal department remains a heavy user of liquid chemical systems for the reprocessing of endoscopes. These systems are under increased scrutiny due to identified cases of patient to patient cross contamination of multidrug resistant bacteria.

Each of these sterilization methods offers benefits to the customers, but none is a complete solution matching the customer need for cost-effective and high throughput reprocessing of complex and expensive medical devices. Customers must purchase and support a combination of products to meet their daily requirements for sterile instruments. TSO_3 technology brings its customers closer to a complete solution, and the extended claims cleared by the FDA demonstrate the truly superior capabilities of the STERIZONE® Sterilization System.

Second Quarter 2018 and Recent Activities

Financing

On August 1, 2018, the Company announced that it and a fund, of which Courage Capital Management LLC ("Courage") is the investment advisor, have entered into a binding $20 million debt financing to fund commercialization initiatives for its STERIZONE® VP4 sterilizer. Courage is a Nashville, TN headquartered alternative asset management firm with a 20-year track record of investments in health care services, medical devices, and pharmaceuticals.

The $20 million financing is provided in two separate but concurrent transactions in the form of a $15 million first lien convertible note (the "Convertible Note") and a $5 million first lien term loan (the "Term Loan").

The $15 million Convertible Note is a 5-year term non-callable note convertible into common shares of the Company at a price of US$0.82 per common share and bears interest at a rate of 10% per annum, accruing as of the closing date until full repayment, compounded quarterly and payable in cash, at or prior to the maturity date of the Convertible Note at the option of the Company.

The $5 million term loan is a 5-year loan callable after 2 years that bears interest at a maximum rate of 12% per annum, which begins accruing immediately, compounds quarterly and is payable in cash, at or prior to the maturity date of the Term Loan. The Company may at its entire discretion decide to reduce the rate of interest payable under the Term Loan provided it decides, on a quarterly basis, to pay a portion or the entirety of a quarterly payment of interest in cash or in common shares of the Company.

Board of Directors

In April 2018, Dr. Douglas Dieter joined TSO_3's board of directors. Dr. Dieter is currently a Managing Director at Ares Management, an asset manager headquartered in Los Angeles, CA.

On May 10, 2018, Dr. Linda Rosenstock was appointed as Chairperson of the Board of Directors. Dr. Rosenstock is a physician executive in academia and government, with broad experience in clinical care, health care delivery, population health, research and health and regulatory policy.

Regulatory Status

On July 4, 2016, TSO_3 announced that the FDA had also cleared TSO_3's expanded IFU's of its STERIZONE® VP4 Sterilizer relating to certain multi-channel flexible endoscopes of up to 3.5 meters in length and four or fewer channels. The evidence TSO_3 has provided to the FDA confirms that the STERIZONE® VP4 Sterilizer can terminally sterilize multi-channeled flexible endoscopes (with a maximum of four channels) having internal lumens of ≥1.45 mm in inner diameter and ≤3,500 mm in overall length, and ≥1.2 mm in inner diameter and ≤1,955 mm in overall length.

Additionally, on May 9, 2018, the Company announced that it has received expanded clearance from US regulators for its most recent 510(k) submission for the terminal sterilization of multi-channeled flexible endoscopes using its STERIZONE® VP4 Sterilizer. The new clearances allow a hospital to terminally sterilize gastrointestinal endoscopes that have dimensions within the cleared intended use, such as certain colonoscopes, duodenoscopes and gastroscopes.

On April 26, 2018, the Company announced that an independent laboratory has completed studies demonstrating the efficacy of the STERIZONE® VP4 Sterilizer for inactivation of prions. Prions are abnormal, pathogenic agents believed to cause transmissible spongiform encephalopathies (TSEs), such as Variant Creutzfeldt-Jakob Disease. TSEs are rapidly progressive, uniformly fatal neurodegenerative diseases that can infect humans and animals. Prions generated great public concern after an outbreak of bovine spongiform encephalopathy occurred in many European countries and scientific evidence indicated its transmission to humans. Prions are unique in demonstrating a high level of resistance to conventional device reprocessing methods and have been linked to patient-to-patient transmission via contaminated medical devices. This data enables the Company to pursue approval from regulators in Europe to be listed as a device that inactivates these challenging infectious agents.

Commercial Activities

On November 25, 2015, TSO_3 and Getinge Infection Control AB ("Getinge") (together, "the Parties") entered into an agreement (the "Getinge Agreement") which granted Getinge exclusive worldwide global distributor rights to TSO_3's STERIZONE® VP4 Sterilizer. In association with the Getinge Agreement, TSO_3 shipped a total of 280 STERIZONE® VP4 Sterilizers to Getinge in 2016 and 2017, and none in 2018.

On January 25, 2018, the Company entered into a co-commercialization agreement (the "Co-commercialization Agreement") with Getinge in a joint effort to increase sales to end users and optimize the customer experience. The Co-commercialization Agreement allowed the Company to sell its STERIZONE® VP4 Sterilizers and associated products and services directly into the United States and Canada and repurchase not less than 100 STERIZONE® VP4 Sterilizers for $33,000 per sterilizer.

At that time, the Company began independent commercialization activities, including direct sales, marketing and product support, while the Parties entered negotiations regarding modifications to their distribution relationship, either through a new agreement or a modification of the Getinge Agreement. Both agreements between the Parties were set to terminate August 1, 2018. In the event agreement was not reached, TSO_3 agreed, by July 1, 2019, to repurchase Getinge's remaining STERIZONE® VP4 Sterilizers at $33,000 per sterilizer, and Getinge's licensing and other rights made available by the agreement would cease.

On August 1, 2018, the Parties announced that they mutually decided not to renew the distribution agreements between them, and agreed to: 1) provide TSO_3 unrestricted independent commercialization of its STERIZONE® VP4 sterilizers; 2) the Company's purchase of approximately 230 STERIZONE® VP4 Sterilizers for $33,000 per sterilizer; 3) transfer Getinge's existing sales pipeline to TSO_3 in exchange for shared economics at the completion of sale; and 4) transition to TSO_3 the service, maintenance and consumables sales of all existing STERIZONE® VP4 sterilizer customers in the United States and Canada.

Intellectual Property

Considering the time and investment required to develop new products and obtain marketing authorization, the Company places considerable importance on protecting its research findings, trade secrets and technologies. As of June 30, 2018, TSO_3 had 185 patents or patent applications pending, with 91 relating specifically to the Company's STERIZONE® VP4 Sterilizer and related technology. TSO_3 relies on a combination of patents, laws, trade secrets, non-disclosure agreements and various contractual arrangements to protect its exclusive technology. There is no guarantee that TSO_3's protective measures are enforceable or sufficient to prevent illicit appropriation of its technology or development of the same or similar technology by a third party.

In 2010 and subsequently, TSO_3 filed initial patent applications and then several divisional patent applications in various countries, seeking for patent protection for its various innovations related to hydrogen peroxide alone and hydrogen peroxide and ozone sterilization systems and methods.

The majority of patents, most of which covering fundamental aspects of TSO_3's STERIZONE® sterilization system technology, have now been issued, while the remaining applications are still pending.

In 2014 and subsequently, TSO_3 filed new distinct patent applications in various countries on its innovative methods to further improve compatibility under differing load conditions for surgical instruments and accessories. Patents have already been issued in some countries, while others are still pending in the United States, Europe, Canada, Japan and other countries.

In 2015 and subsequently, TSO_3 also filed new patent applications in the United States and other countries related to biological indicators (BI) used to monitor effectiveness of a sterilization process.

During the first quarter of 2018, the Patent Office of South Korea notified the Company of his intent to grant an additional patent covering a critical aspect of TSO_3's technology embedded in the STERIZONE® Sterilization System.

During the second quarter of 2018, the US Patent Office informed the Company of his intent to grant a new patent on its recent innovative methods to further improve compatibility under differing load conditions.

The European Patent Office also delivered to the Company a notice of acceptation for an additional patent covering a core aspect of TSO_3's technology embedded in the STERIZONE® Sterilization System.

The Canadian Patent Office and the Patent Office of South Korea each allowed to the Company an additional patent covering the STERIZONE® Sterilization System.

The Patent Office of Brazil also informed the Company of his intent to grant 7 patents, most of them covering aspects of TSO_3's technology embedded in the STERIZONE® Sterilization System.

Patented TSO_3's unique *Dynamic Sterilant Delivery System*™ is core to the differentiation of its products and its protection enhances the Company's value.

Trademarks are important assets of the Company. STERIZONE® is a registered trademark of TSO_3 in the United States, Canada and Europe while STERIZONE TECHNOLOGY® is registered in the name of TSO_3 in not less than 43 countries.

2018 Focus

The Company's focus for 2018 is to accelerate the rate of STERIZONE® VP4 sterilizer installations in industry leading medical facilities in the United States and Canada.

The Company has invested in its team of sales, clinical and field service professionals, as well as sales and marketing activities. This sales and marketing team is focused on selling and providing support to end users in the central sterilization department ("CSSD") of acute care hospitals, establish and support new industry partnerships, as well as to develop additional opportunities in the gastrointestinal reprocessing market segment.

The Company's initial focus has been to directly support North American customers and launch a limited but targeted campaign which focused on a STERIZONE® core value: to significantly lower healthcare reprocessing operating costs. Additionally, in the past several months the Company has taken the lead in responding to government tenders in Quebec and British Columbia, and has attended, initiated promotions and been a sponsored speaker at key industry trade events.

With a transition plan concluded with Getinge, the Company now has sole ownership and control of all commercial efforts for all customers – allowing TSO_3 to be the single point of customer accountability.

The Company is well positioned to address its singular focus, given the Company's decision to recapitalize the Company and the successful return of all commercial rights for the STERIZONE® VP4 sterilizer from Getinge. The Company shall strive to achieve the following in the second half of fiscal 2018:

- Complete the transition of the STERIZONE® business from Getinge to TSO_3;
    - Successfully transition all installed and shipped sterilizers in North America to TSO_3 accounts;
    - Assume Getinge's active backlog of sterilizer sales and installations;
    - Immediately review, assess and prioritize the existing pipeline and close business;
    - Purchase Getinge's inventory, and immediately launch customer incentive programs to place many of those units in to hospitals.
- Expand the Company's base of industry leading reference hospitals;
- Target select geographies and institutions with aggressive promotion and placements, with the assistance of reference sites;
- Target and support GI scope sterilization initiatives at leading reference institutions.

The capital equipment sales process in the medical device industry remains slow relative to other industries, but the Company is making progress. The Company has verified that over 50 STERIZONE® VP4 Sterilizers have been sold and installed; including units which have been sold but not yet installed, this number exceeds 70. Six of those units were from TSO_3's direct sales efforts. Based on

customer feedback the Company has received, TSO_3 is able to provide sales and customer support at industry leading levels. Through the second quarter and subsequent to its close, the Company successfully segmented and classified its target customer base and, in combination with its direct efforts and the transition of the pipeline from Getinge, is working on over 100 quotations made to qualified opportunities, with material contribution coming from the Company. These quotations will now be managed through the Company's sales funnel management process. The Company has devised compelling sales incentives and structures to respond to customer feedback.

Additionally, the Company will continue to use its laboratories in support of its traditional device compatibility testing, endoscope compatibility testing and its new product development initiatives. Such efforts will help the Company to demonstrate to manufacturers and hospitals the impact its technologies can have on medical devices, reprocessing efficiency, effectiveness, throughput and simplicity, as well as endoscope terminal sterilization.

Management Discussion and Analysis

This management discussion and analysis (MD&A) is intended to help readers assess the consolidated financial position and consolidated financial performance of TSO_3 Inc. ("TSO_3", or the "Company") for the three-month and six-month periods ended June 30, 2018 and to compare them with the three-month and six-month periods ended June 30 , 2017. This information is dated August 7, 2018 and should be read in conjunction with the Interim Condensed Consolidated Unaudited Financial Statements and the accompanying notes. Unless specified otherwise, all amounts are stated in US dollars.

The financial information contained in this MD&A and in the Interim Condensed Consolidated Unaudited Financial Statements has been prepared in accordance with the International Financial Reporting Standards ("IFRS"). The Company occasionally refers to non-IFRS financial measures in the MD&A. See the Non-IFRS financial measures section for more information.

The Interim Condensed Consolidated Unaudited Financial Statements, accompanying notes and MD&A have been reviewed by the Audit and Risk Management Committee of TSO_3 and approved by the Board of Directors.

This MD&A contains forward-looking information. A statement about the forward-looking information is made in the next section. Also, the reader should review the section on Risk Factors discussing some of the risks and uncertainties that may have a material adverse effect on the Company's business, results of operations, or financial condition as well as on an investment in the Company's securities.

Additional information regarding TSO_3 can be found in its Annual Information Form, and under TSO_3's issuer profile on SEDAR at (www.sedar.com) and TSO_3's website at www.tso3.com.

Forward Looking Statements

Certain statements contained in this report and the MD&A constitute forward-looking statements. These statements relate to future events or the Company's future performance, business prospects or opportunities and product development. All statements other than statements of historical facts may be forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "plan", "continue", "estimate", "expect, "may", "will", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe" and similar expressions. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements.

The Company believes that the expectations reflected in these forward-looking statements are reasonable, but no assurance can be given that these expectations will prove to be correct. These statements speak only as of the date of this report. Such statements are based on a number of assumptions which may prove to be incorrect, including, but not limited to, assumptions about:

- The success of sales and marketing partners and suppliers;
- The ability for the Company to deploy TSO_3's products to end customers;
- The ability for the Company to market and sell its products;
- Business and economic conditions;
- The ability to obtain sufficient quantities of supplies and materials when needed;
- The ability to obtain regulatory authorizations that are required to market its product;
- The ability to attract and retain skilled staff;
- Regulatory Approvals;
- Competition;
- Tax benefits and tax rates;
- The ability to complete research and development work;

- Foreign currency exchange rates;
- The ability for the Company to attract capital and other financial risks;
- The compatibility of medical instruments with the Company's technology.

These forward-looking statements involve risks and uncertainties relating to, among other things, commercial operations, compatibility, biocompatibility, research and development projects, dependency on key personnel, limited history of commercialization, management of business growth, intellectual property and counterfeiting, competition, product liability issues, litigation, regulatory approvals and financial instruments. Actual results and developments are likely to differ, and may differ materially, from those expressed or implied by the forward-looking statements. Factors that could cause actual results to differ materially include, but are not limited to, the risk factors described under the section "Risk factors" in the Annual MD&A of the Company for the year ended December 31, 2017, which reflect to the Company's knowledge, the material risks and uncertainties it faced as at August 7, 2018, the date of filing for the second fiscal quarter of 2018. Disclosure contained in this document is current to that date, unless otherwise stated.

Investors should not place undue reliance on forward-looking statements as the plans, intentions or expectations upon which they are based might not occur. The Company cautions that the foregoing list of risk factors is not exhaustive. Investors and others who base themselves on the Company's forward-looking statements should carefully consider the above factors as well as the uncertainties they represent and the risk they entail. The reader must not unduly rely upon the Company's prospective statements.

Further, the Company does not intend, and does not assume any obligation, to update these forward looking statements, except as may be required by applicable laws.

Summary of Results

Periods ended June 30, 2018 and 2017 (Unaudited, IFRS Basis, in thousands of US dollars, except per share amounts)

	Second Quarter		Six months	
	2018	2017	**2018**	2017
	$	$	**$**	$
Revenues	**373**	4,630	**628**	8,841
Cost of sales	**319**	2,871	**845**	5,511
	54	1,759	**(217)**	3,330
Expenses				
Research and development	**1,488**	1,539	**3,192**	2,894
Selling, general and administrative	**2,523**	2,396	**5,074**	4,604
Financial (income) expenses	**(12)**	49	**(26)**	10
Total Expenses	**3,999**	3,984	**8,240**	7,508
Net loss before income taxes	**(3,945)**	(2,225)	**(8,457)**	(4,178)
Income taxes	**7**	29	**7**	56
Net loss and comprehensive loss	**(3,952)**	(2,254)	**(8,464)**	(4,234)
Weighted average number of outstanding shares (in thousands)	**92,891**	92,328	**92,884**	92,162
Basic and diluted net loss per share	**(0.04)**	(0.02)	**(0.09)**	(0.05)
Basic and diluted net comprehensive loss per share	**(0.04)**	(0.02)	**(0.09)**	(0.05)

Results Analysis

Below, the Company discusses the variations of certain accounts for the second quarters of 2018 and 2017 and within the six-month periods ending June 30, 2018 and 2017.

All dollar amounts are in **US Dollars** unless otherwise noted.

REVENUES

For the second quarter of 2018, revenues equalled $0.4 million, as compared to $4.6 million in the second quarter of 2017. TSO_3 revenues in the second quarter of 2018 reflect sales of consumables, accessories and service parts. The Company did not ship new sterilizers to Getinge in the second quarter of 2018 as opposed to 40 in the same period last year. For the six-month period ended June 30, 2018, revenues equalled $0.6 million, as compared to $8.8 million for the same period in 2017. Sales of the Company's proprietary consumables, accessories and service parts in the second quarter and six-month period of 2018 were higher compared to the same period in 2017, reflecting increased installations of its STERIZONE® VP4 Sterilizers in medical facilities. The Company did not ship STERIZONE® VP4 Sterilizers to Getinge, nor did it receive a purchase order for such sterilizers, in the first six-month of 2018 as compared to 76 units shipped in 2017.

The Company processed and delivered upgrades of 47 STERIZONE® VP4 sterilizers to Getinge, totalling $0.5 million, in the second quarter of 2018, for which payment was received thereafter. In lieu of recording revenue for such shipments and due to the potential repurchase of those upgraded sterilizers in accordance with the Co-commercialization Agreement, in the second quarter of 2018 the Company recorded an associated $0.5 million repurchase provision and retained $0.3 million of associated upgrade costs of sales in inventory.

The Company did not record license fee revenue in the second quarter and first six-months of 2018, as compared to $0.2 million recorded in the second quarter of 2017 and $0.4 million recorded in the first six-months of 2017. In the first six-month of 2018, the Company did not recognize a portion of the $6.0 million balance in deferred license fee associated with the Getinge Agreement as negotiations with Getinge were ongoing.

NET LOSS

In the second quarter of 2018, net loss and comprehensive loss totaled $4.0 million or ($0.04) per share, as compared to $2.3 million or ($0.02) per share of net loss and comprehensive loss in the second quarter of 2017. For the six-month period ended June 30, 2017, net loss and comprehensive loss totaled $8.5 million or ($0.09) per share, as compared to $4.2 million or ($0.05) during the same period in 2017.

In the second quarter of 2018, gross profit decreased by $1.7 million, as compared to the same period last year and by $3.5 million for the six-month period, mainly related to the decrease of sterilizer sales to Getinge and the lack of deferred license fee revenue recognition. The investments made in research and development activities were comparable for the second quarter as compared to last year and higher by $0.3 million for the six-month period and higher by $0.1 million in sales, general and administrative activities to support the business for the second quarter and $0.5 million for the six-month period.

For the second quarter of 2018, the Company incurred no material events which would have impacted its comprehensive loss.

Supplemental Non-IFRS Financial Measures

This MD&A was prepared using results and financial information determined under IFRS. In addition to IFRS financial measures, management uses non-IFRS financial measures to assess the Company's operational performance. It is likely that the non-IFRS financial measures used by the Company will not be comparable to similar measures reported by other issuers or those used by financial analysts as their measures may have different definitions. The measures used by the Company are intended to provide additional information and should not be considered in isolation or as a substitute for IFRS financial performance measures.

Generally, a non-IFRS financial measure is a numerical measure of an entity's historical or future financial performance, financial position or cash flows that is neither calculated nor recognized under IFRS. Management believes that such non-IFRS financial measures are important as they provide users of the financial statements with a better understanding of the results of the Company's recurring operations and their related trends, while increasing transparency and clarity into its operating results. Management also believes these measures can be useful in assessing the Company's capacity to discharge its financial obligations.

Management is assessing its operational performance using supplemental non-IFRS measures which removes significant unusual items that do not reflect the recurring and ongoing operational results and trends.

IFRS TO NON-IFRS ADJUSTED EBITDA RECONCILIATION

		2018				2017
$000's	**Q2**	Q1	Q4	Q3	Q2	Q1
Net loss	**(3,952)**	(4,512)	(1,449)	(1,771)	(2,254)	(1,980)
Financial (income) expenses	**(12)**	(14)	74	48	49	(39)
Amortization and depreciation	**292**	315	246	331	221	168
Share-based compensation expense	**627**	371	301	632	592	609
Income taxes	**7**	-	(59)	33	29	27
Adjusted Ebitda	**(3,038)**	(3,840)	(887)	(727)	(1,363)	(1,215)

(1) Refer to the Non-IFRS financial measures.

Adjusted EBITDA, is adjusted Earnings before Interest, Taxes, Depreciation, and Amortization (Adjusted EBITDA). Adjusted EBITDA adjusts net income for (1) significant realized and unrealized foreign exchange gains or losses, (2) financial expenses (income), (3) amortization and depreciation expenses (4) share-based compensation expense, (5) write-downs of certain tangible and intangible assets, (6) one-time write-off of inventory, (7) income taxes, and (8) other significant unusual items.

EXPENSES

Foreign Exchange Impact

The Company is reporting currency in US dollars as the significant majority of its current and future revenues are and are expected to be denominated in US dollars.

A significant portion of the Company's expenses are denominated in Canadian dollars. Fluctuations in the value of Canadian dollars (CAD) relative to US dollars (USD) will have an impact on the Company's operating results to the extent expenses in Canadian dollars are not offset by revenues in the same currency. The Company currently does not otherwise hedge against foreign exchange rate fluctuations.

In the second quarter of 2018, total expenses denominated in Canadian dollars were CAD$2.3 million, as compared to CAD$4.8 million in the second quarter of 2017. The average USD/CAD foreign exchange rate in the second quarter of 2018 was 0.7747 as compared to 0.7437 in 2017, which is reflected in an increase in expenses of 4% year over year upon conversion to USD.

From a quarterly sequential perspective, the USD/CAD foreign exchange rate in the second quarter of 2018 was 0.7747 as compared to 0.7910 in the first quarter of 2018, which is reflected in a decrease in expenses of 2% quarter over quarter upon conversion to USD.

In the second quarter of 2018, total cost of sales related expenses denominated in Canadian dollars were CAD$0.5 million, as compared to CAD$2.6 million in the second quarter of 2017. Total research and development expenses denominated in Canadian dollars were CAD$0.7 million in the second quarter of 2018, as compared to CAD$1.2 million in the second quarter of 2017. In the second quarter

of 2018, total SG&A expenses denominated in Canadian dollars were CAD$1.2 million, as compared to CAD$1.0 million in the second quarter of 2017.

Cost of sales

Cost of sales include all expenses incurred in connection with production costs, related quality control and assurance expenses, cost of services sold to end-users, shipping expenses, supply chain activities as well as layout improvements.

For the three-month period ended June 30, 2018, cost of sales amounted to $0.3 million, as compared to $2.9 million for the same period in 2017. For the six-month period ended June 30, 2018, cost of sales equaled $0.8 million, as compared to $5.5 million in the same period in 2017. In the first and second quarters of 2018, TSO_3 did not ship STERIZONE® VP4 Sterilizers as compared to 36 and 40 sterilizers respectively in each of the first two quarters of 2017.

Gross profit was $0.1 million in the second quarter of 2018, as compared to $1.8 million in the second quarter of 2017. For the six-month period ended June 30, 2018, gross profit was negative $0.2 million, as compared to positive $3.3 million for the same period in 2017. Gross profit in the first and second quarter of 2018 declined as the Company did not ship STERIZONE® VP4 Sterilizers to Getinge and did not recognize licencing fee revenue. Second quarter of 2018 gross profit contributed from a higher gross margin on consumables, accessories and service parts.

Research and development

For the quarter ended June 30, 2018, research and development expenses were $1.5 million (same amount in 2017) and for the six-month period ended June 30, 2018, these expenses were $3.2 million, as compared to $2.9 million in the same period in 2017. During the first half of 2018, the Company incurred $0.2 million of additional expenses related to material purchases, equipment maintenance, depreciation and building expenses to run its laboratories. Also, these expenses were for extended endoscope regulatory claims, other endoscope and medical device compatibility studies for its STERIZONE® VP4 Sterilizer. To support product development and the laboratories, the Company also increased salary, share-based compensation, travelling expenses and professional fees by $0.1 million in the first half of 2018 as compared to the same period in 2017.

The Company reduced its research and development expenditures in the second quarter of 2018 relative to the $1.7 million in the first quarter of 2018 as it focused more of its investments on selling and marketing activities.

Selling, General and Administrative (SG&A)

Selling, general and administrative (SG&A) include marketing, sales and service and administrative expenses. SG&A expenses were $2.5 million for the quarter ended June 30, 2018, as compared to $2.4 million for the same period in 2017. For the six-month period ended June 30, 2018, these expenses were $5.1 million, as compared to $4.6 million in 2017.

During the second quarter and first six-month of 2018, as compared to the same periods in 2017, the Company incurred in marketing, sales and service an additional $0.6 million and $1.2 million in salary, share-based compensation, travelling and recruiting fees as a result of the creation of its commercialization team. This increase is offset by a decrease in general and administration expenditures during the second quarter and first six-months of 2018, as compared to the same periods in 2017, of $0.4 million and $0.7 million in salary, share-based compensation, travelling and recruiting fees.

Share-based compensation expense

For the quarter ended June 30, 2018, non-cash share-based compensation amortization amounted to $0.6 million (same amount in 2017). For the six-month period ended June 30, 2018, these expenses amounted to $1.0 million, as compared to $1.2 million for the same period in 2017. Share-based

compensation amortization decreased as a result of employee departures during the first quarter of 2018.

As at June 30, 2018, the Company had 7.6 million stock options oustanding, as compared to 6.4 million at the same date in 2017.

These expenses are presented in the Interim Condensed Consolidated Statements of Loss and Comprehensive Loss in the expense line items which correspond to the functions of the equity incentive holders.

Financial (income) expenses

For the quarter and six-month period ended June 30, 2018, financial income and expense were not significant and comparable.

Financial Position Analysis

(Unaudited, IFRS Basis, in thousands of US dollars)

	June 30, 2018	December 31, 2017
	$	$
Cash, cash equivalents and investments	**6,673**	14,808
Accounts receivable	**727**	651
Inventories	**2,665**	2,040
Property, plant and equipment	**2,809**	3,184
Intangibles assets	**1,868**	1,886
Accounts payable, accrued liabilities, current and deferred income tax liabilities	**1,911**	2,515
Provision for repurchase	**524**	-
Warranty provision	**1,094**	1,263
Deferred revenues (short and long term)	**6,066**	6,050
Equity	**5,450**	12,891

Liquid Assets

As at June 30, 2018, cash, cash equivalents and investments amounted to $6.7 million, as compared to $14.8 million as at December 31, 2017.

In the second quarter and for the first half of 2018, the Company used approximately $3.1 million and $6.9 million respectively in cash for operations, excluding non-cash working capital, as compared to $1.3 million and $2.7 million for the same period in 2017. In the second quarter and for the first half of 2018, the Company consumed $0.1 million and $1.1 million respectively from changes in non-cash working capital, as compared to $1.0 million consumed and $0.7 million generated in the same period last year from the early receipt of accounts receivables. Cash used from operations increased predominantly in the first and second quarter of 2018 relative to the comparable period due to the decrease in sales of sterilizers to Getinge.

Accounts Receivable

As at June 30, 2018, accounts receivable are comparable to December 31, 2017 at $0.7 million. As at June 30, 2018, receivables were related to Getinge receivables, R&D and sales tax credits and a unsecured receivable outstanding from an executive in relation to an ordinary course income tax refund. In the first half of 2018 and 2017, the Company used the automated receivable factoring program for almost all accounts receivable from Getinge.

Inventories

As at June 30, 2018, inventories amounted to $2.7 million, as compared to $2.0 million as at December 31, 2017.

	June 30, 2018 $	December 31, 2017 $
Raw Materials	**1,484**	1,137
Work in Progress	**2**	242
Finished Goods	**851**	661
Cost of upgrade inventory to repurchase	**328**	-
	2,665	2,040

In the second quarter of 2018, the Company grew its raw material inventories to build supply of parts for upgrades to STERIZONE® VP4 Sterilizers. The Company also processed and delivered upgrades of 47 STERIZONE® VP4 sterilizers to Getinge, totalling $0.5 million, in the second quarter of 2018, for which payment was received thereafter. In lieu of recording revenue for such shipments and due to the potential repurchase of those upgraded sterilizers in accordance with the Co-commercialization Agreement, in the second quarter of 2018 the Company recorded an associated $0.5 million repurchase provision and retained $0.3 million of associated upgrade costs of sales in inventory.

Property, Plant and Equipment

Property, plant and equipment, net of depreciation, amounted to $2.8 million as at June 30, 2018 which is $0.4 million lower compared to December 31, 2017. During the six-month period, TSO_3 acquired a total of $0.1 million in property, plant and equipment. Depreciation was $0.5 million during the six-month period of 2018.

Intangible Assets

Intangible assets, net of amortization, amounted to $1.9 million as at June 30, 2018 (unchanged relative to December 31, 2017). The Company invested $0.1 million in patents and amortization was $0.1 million during the first half of 2018.

Accounts Payable, Accrued Liabilities, Current and Deferred Income Tax Liabilities

As at June 30, 2018, accounts payable, accrued liabilities, current and deferred income tax liabilities amounted to $1.9 million, which is $0.6 million lower compared to December 31, 2017. The decrease is due to a decline in inventory and other purchasing, as well as consumption of warranty accrual.

Deferred Revenues

At the end of the second quarter of 2018, deferred revenues represented almost exclusively the unamortized part of the deferred license revenue received under the Getinge Agreement.

The Company did not record license fee revenue in the second quarter of 2018, as compared to $0.2 million recorded in the second quarter of 2017. In the second quarter of 2018, the Company did not recognize a portion of the $6.0 million balance in deferred license fee associated with the Getinge Agreement as negotiations with Getinge was ongoing. The Company expects to apply the appropriate accounting treatment of this license fee in the future in a manner which reflects the results of the Getinge negotiations.

Shareholders' Equity

As at June 30, 2018, Shareholders' Equity amounted to $5.5 million, as compared to $12.9 million as at December 31, 2017. The variation is mainly the result of the absorption of the operating deficit

incurred during the first half of 2018, partially offset by $1.0 million in share-based compensation recognized during the same period.

As at June 30, 2018, the number of outstanding shares was 92,891,304 (92,854,304 as at December 31, 2017). As of August 7, 2018, the date of filing for the second fiscal quarter of 2018, the number of outstanding shares was 92,891,304.

Cash Flows Analysis

(Unaudited, IFRS Basis, in thousands of US dollars)

	Six months	
	2018	2017
	$	$
Operating Activities	**(7,925)**	(1,853)
Investing Activities	**4,912**	5,030
Financing Activities	**25**	405

Operating Activities

In the second quarter and for the first half of 2018, the Company used approximately $3.1 million and $6.9 million respectively in cash for operations, excluding non-cash working capital, as compared to $1.3 million and $2.7 million for the same period in 2017. In the second quarter and for the first half of 2018, the Company consumed $0.1 million and $1.1 million respectively from changes in non-cash working capital, as compared to $1.0 million consumed and $1.8 million generated in the same period last year from the early receipt of accounts receivables. Cash used from operations increased predominantly in the first and second quarter of 2018 relative to the comparable period due to the decrease in sales of sterilizers to Getinge.

Investing Activities

For the six-month period ended June 30, 2018, investing activities generated $4.9 million, as compared to $5.0 million generated during the same period in 2017, a decrease resulting from the net disposal of $5.1 million of short term investments and the purchase of $0.2 million of property, plant and equipment and intangible assets in the first half of 2018, as compared to $6.1 million and $1.2 million respectively in the same period last year. In the second quarter of 2018, the Company generated $2.8 million from the net disposal of short term investments and used $0.1 million to purchase property, plant and equipment and intangible assets in 2018, as compared to $4.0 million and $0.7 million respectively in the same period in 2017.

Financing Activities

For the six-month period ended June 30, 2018, financing activities generated $0.02 million as compared to $0.4 million for the same period in 2017. The total amount generated in 2018 and 2017 was from options exercised.

Summary of Quarterly Results

(Unaudited, IFRS Basis, in thousands of US dollars, except per share amounts)

This table shows the quarterly evolution of sales, net loss and net loss per share.

		2018				2017		2016
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Revenues	**373**	255	5,780	5,105	4,630	4,211	3,746	3,507
Net loss	**(3,952)**	(4,512)	(1,449)	(1,771)	(2,254)	(1,980)	(2,068)	(1,473)
Net loss per Share (basic, in $)	**(0.04)**	(0.05)	(0.02)	(0.02)	(0.02)	(0.02)	(0.02)	(0.02)

Segmented Information

The Company has one operating segment.

Revenues	Second quarter 2018 $	2017 $	Six months 2018 $	2017 $
Canada and Worldwide	**101**	87	**152**	197
United States	**272**	4,543	**476**	8,644
	373	4,630	**628**	8,841

	June 30, 2018			December 31, 2017		
	Inventories	**Property, Plant and Equipment**	**Intangible Assets**	Inventories	Property, Plant and Equipment	Intangible Assets
Canada and Worldwide	**1,923**	**1,154**	**1,856**	1,616	1,306	1,870
United States	**742**	**1,655**	**12**	424	1,878	16
	2,665	**2,809**	**1,868**	2,040	3,184	1,886

For the second quarter of 2018, revenue from Getinge represented 93% of the Company's total revenues in conjunction with the Getinge Agreement (98% for the same period in 2017).

Off-Balance Sheet Arrangement

The Company made no off-balance sheet arrangement during the second quarter of 2018 other than purchase orders issued in the normal course of business.

Additional Disclosure – Unrecorded Tax Assets

The Company has accumulated a substantial amount of losses, unclaimed expenses and tax credits that could be claimed in the future to reduce income taxes. The related deferred income tax assets will be recorded on the Condensed Consolidated Financial Statements only when the Company concludes that these tax assets will probably be materialized by shielding profits from taxes, or otherwise. If the Company had reached this conclusion on June 30, 2018, $25.4 million in tax assets would have been recorded based on an effective rate of 15% for federal taxes and 11.5% for provincial taxes ($23.7 million as at December 31, 2017 and same effective tax rate).

Financial Instruments

The reader is refered to note 6 of the Company's Annual Audited Consolidated Financial Statement for the year ended December 31, 2017 and note 6 of the Interim Unaudited Consolidated Financial Statements for the quarter ended June 30, 2018 for a detailed presentation of financial instruments.

Capital Resources

The Company needs capital primarily to finance its production, its research and development, its selling, general and administrative expenses, its working capital and its capital expenditures. The Company's capital is comprised of share capital and reserve for share-based compensation.

In the past, the Company has financed its activities through public and private equity financings and, to a small extent, through government grants and tax credits.

The Company invests its funds in highly liquid short-term investments as required by its Investment Policy (see section on Risk Factors presented in the Annual Management Discussion and Analysis of the Company for the year ended December 31, 2017). These securities are chosen on the basis of foreseen cash requirements and safety.

Accounting Policies

The reader is refered to notes 2 and 3 of the Company's Annual Audited Consolidated Financial Statements for the year ended December 31, 2017 and Interim Consolidated Financial Statements for the quarter ended June 30, 2018 for a detailed presentation of accounting policies, critical accounting judgments, key source of estimation uncertainty and future accounting changes.

Risk Factors

The Company operates in industry segments that have a variety of risk factors and uncertainties. TSO_3 hereby incorporates by reference the risks and uncertainties described in our Annual Management Discussion and Analysis of the Company for the year ended December 31, 2017 which reflect, to its knowledge, the material risks and uncertainties the Company faced as at June 30, 2018.

Limited History of Sales

The Company intends that its principal sources of revenue in the future will be from direct sales to customers of its STERIZONE® VP4 Sterilizers and associated products and services. The Company has limited sales and marketing experience and there is no assurance that the Company can keep its current customers or gain new ones.

The Company will have to expend material funds to promote and commercialize its products and to invest significant management resources. The Company's success in this regard will depend on its ability to develop and implement an effective sales and marketing strategy. Failure to achieve the marketing objectives could have a material adverse effect on the Company and on its results of operations.

Indebtedness risks

The recent US$20 million secured debt financings restrict the Company's ability to sell its assets, incur secured or certain other indebtedness or engage in mergers or consolidations. These restrictions and covenants could impede access to capital or prevent the Company to pursue other business opportunities or implement its business strategy in the future.

The Company may need to use a large portion of its cash flow to repay principal and pay interest of these debts, which may reduce the amounts of fund available to finance its operations or its expansion.

The Company's ability to meet its obligations will depend on its future financial performance. Its existing capital resources and future cash flows from operations may not be sufficient to allow the Company to repay principal and pay interest. If these amounts are insufficient, the Company may be required to refinance part or all of these debts, sell assets, borrow more money or issue additional equity.

Disclosure Controls and Procedures and Internal Controls over Financial Reporting

In accordance with National Instrument 52-109 of the Canadian Securities Administrators, the Company has filed certificates signed by the President and Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO") that, among other things, report on the design of disclosure controls and procedures (DC&P) and the design of internal control over financial reporting (ICFR).

The CEO and the CFO have designed DC&P, or caused them to be designed under their supervision, to provide reasonable assurance that (1) material information relating to the Company has been made known to them and that (2) information required to be disclosed in the Company's filings is recorded, processed, summarized and reported within the prescribed time periods under securities legislation as of June 30, 2018.

Also, the CEO and the CFO have designed ICFR, or have caused it to be designed under their supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Interim Financial Statements for financial reporting purposes in accordance with IFRS as of June 30, 2018.

Changes in internal controls over financial reporting

No changes were made to the Company's internal controls over financial reporting during the quarter ended June 30, 2018 that have materially affected, or are reasonably likely to materially affect, the internal controls over financial reporting.

INTERIM CONDENSED CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS

For the three-month and six-month periods ended June 30, 2018 and 2017

Interim Condensed Consolidated Statements of Loss and Comprehensive Loss

Periods ended June 30, 2018 and 2017 (Unaudited, in thousands of US dollars, except per share amounts)

	Notes	Second quarter		Six months	
		2018	2017	**2018**	2017
		$	$	**$**	$
Revenues		**373**	4,630	**628**	8,841
Cost of sales	**5**	**319**	2,871	**845**	5,511
		54	1,759	**(217)**	3,330
Expenses					
Research and development		**1,488**	1,539	**3,192**	2,894
Selling, general and administrative		**2,523**	2,396	**5,074**	4,604
Financial (income) expenses	**4**	**(12)**	49	**(26)**	10
Total Expenses		**3,999**	3,984	**8,240**	7,508
Net loss before income taxes		**(3,945)**	(2,225)	**(8,457)**	(4,178)
Income taxes		**7**	29	**7**	56
Net loss and total comprehensive loss		**(3,952)**	(2,254)	**(8,464)**	(4,234)
Weighted average number of outstanding shares (in thousands)		**92,891**	92,328	**92,884**	92,162
Basic and diluted net loss per share	**15**	**(0.04)**	(0.02)	**(0.09)**	(0.05)
Basic and diluted net comprehensive loss per share	**15**	**(0.04)**	(0.02)	**(0.09)**	(0.05)

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

Interim Condensed Consolidated Statements of Changes in Equity

(Unaudited, in thousands of US dollars)

	Notes	Share Capital $	Reserve-Share-Based Compen-sation $	Deficit $	Other comprehen-sive income $	Total $
Balance at January 1, 2017		110,406	4,709	(95,732)	(1,712)	17,671
Options exercised	11	617	(212)	-	-	405
Share-based compensation	12	-	1,201	-	-	1,201
Net loss for the period		-	-	(4,234)	-	(4,234)
Balance at June 30, 2017		111,023	5,698	(99,966)	(1,712)	15,043
Balance at July 1, 2017		111,023	5,698	(99,966)	(1,712)	15,043
Options exercised	11	192	(57)	-	-	135
Share-based compensation	12	-	933	-	-	933
Net loss for the period		-	-	(3,220)	-	(3,220)
Balance at December 31, 2017		111,215	6,574	(103,186)	(1,712)	12,891
Balance at January 1, 2018		111,215	6,574	(103,186)	(1,712)	12,891
Options exercised	11	39	(14)	-	-	25
Share-based compensation	12	-	998	-	-	998
Net loss for the period		-	-	(8,464)	-	(8,464)
Balance at June 30, 2018		111,254	7,558	(111,650)	(1,712)	5,450

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

Interim Condensed Consolidated Statements of Financial Position

(Unaudited, in thousands of US dollars)

	Notes	June 30, 2018 $	December 31, 2017 $
Current Assets			
Cash and Cash Equivalents	6	**5,056**	8,044
Short-term Investments	6	**1,617**	6,764
Accounts Receivable	7	**727**	651
Inventories		**2,665**	2,040
Prepaid Expenses		**303**	150
		10,368	17,649
Non-current Assets			
Property, Plant and Equipment	8	**2,809**	3,184
Intangible Assets	9	**1,868**	1,886
		4,677	5,070
		15,045	22,719
Current Liabilities			
Accounts Payable and Accrued Liabilities	6	**1,894**	2,430
Provision for Repurchase		**524**	-
Warranty Provision		**1,094**	1,263
Current Tax Liabilities		**-**	68
Deferred Revenues	10	**22**	6
		3,534	3,767
Non-current Liabilities			
Defered Tax Liabilities		**17**	17
Deferred Revenues	10	**6,044**	6,044
		9,595	9,828
Equity			
Share Capital	11	**111,254**	111,215
Reserve – Share-based Compensation	12	**7,558**	6,574
Deficit		**(111,650)**	(103,186)
Accumulated Other Comprehensive Loss		**(1,712)**	(1,712)
		5,450	12,891
		15,045	22,719

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

Interim Condensed Consolidated Statements of Cash Flows

Periods ended June 30, 2018 and 2017 (Unaudited, in thousands of US dollars)

	Notes	Six months 2018 $	2017 $
Cash flows from operating activities			
Net loss		**(8,464)**	(4,234)
Adjustments for:			
Depreciation and amortization		**607**	389
Deferred income tax liabilities		**-**	56
Share-based compensation	12	**998**	1,201
Investment income	4	**(62)**	(91)
		(6,921)	(2,679)
Changes in non-cash operating working capital items	13	**(1,087)**	723
Interest received		**83**	103
Cash flows used in by operating activities		**(7,925)**	(1,853)
Cash flows from investing activities			
Acquisition of investments		**-**	(2,909)
Disposal of investments		**5,126**	8,999
Acquisition of property, plant and equipment	8	**(134)**	(909)
Acquisition of intangible assets	9	**(80)**	(151)
Cash flows generated by investing activities		**4,912**	5,030
Cash flows from financing activities			
Options exercised	11	**25**	405
Cash flows generated by financing activities		**25**	405
(Decrease) increase in cash and cash equivalents		**(2,988)**	3,582
Cash and cash equivalents at the beginning		**8,044**	2,698
Cash and cash equivalents at the end		**5,056**	6,280

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

Notes to the Interim Condensed Consolidated Financial Statements

Periods ended June 30, 2018 and 2017 (Unaudited, in thousands of US dollars, unless otherwise indicated)

1. Description of Business

TSO_3 ("TSO_3" or the "Company") exists under the Business Corporations Act (Québec). The Company's activities encompass the sale, production, maintenance, research, development and licensing of sterilization processes, related consumable supplies and accessories for medical devices that are sensitive to heat and moisture. The Company designs products for sterile processing areas in medical facilities that offer an advantageous replacement solution to other low temperature sterilization and high-level disinfection processes currently used. TSO_3 also offers services related to the maintenance of sterilization equipment and compatibility testing of medical devices with such processes. The head office of the Company is located at 2505, avenue Dalton, Québec (Québec), Canada and its subsidiary office is located at 1636 American Way, Myrtle Beach, SC, United States.

2. Accounting Policies

Statement of Compliance

The Interim condensed consolidated unaudited financial statements ("financial statements") are prepared 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) and applicable as at June 30, 2018 have been omitted or condensed. As such, these financial statements should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2017. The financial statements were prepared using the same basis of presentation, accounting policies and methods of computation as outlined in Note 2, *accounting policies* in our consolidated financial statements for the year ended December 31, 2017, except for the adoption of new and amended standards as set out below. The financial statements do not include all of the notes required in annual financial statements.

Going Concern

The Company started its US commercial operations at the end of 2015, when it announced a worldwide exclusive distribution agreement (the"Getinge agreement") with Getinge for the STERIZONE® VP4 Sterilizer. The Company has been highly dependent on Getinge's commitment and success at marketing and distributing the STERIZONE® VP4 Sterilizer.

Getinge's sales to end users did not occur at the same pace as Getinge's purchases from TSO_3. The Company sold 110 and 170 STERIZONE® VP4 Sterilizers in 2016 and 2017 respectively. In November 2017, the Company indicated that over 50 STERIZONE® VP4 Sterilizers had been delivered to end users.

On January 25, 2018, the Company entered into a Co-commercialization agreement (the "Co-commercialization Agreement") with Getinge allowing the Company to sell its STERIZONE® VP4 Sterilizers and associated products and services directly into the United States and Canada. The Co-commercialization Agreement also include an obligation for the Company to repurchase not less than 100 STERIZONE® VP4 Sterilizers for $3.3 million.

Notes to the Interim Condensed Consolidated Financial Statements

Periods ended June 30, 2018 and 2017 (Unaudited, in thousands of US dollars, unless otherwise indicated)

2. Accounting Policies (cont'd)

Going Concern (cont'd)

Subsequent to the end of the quarter, the Company announced it had entered into a binding $20 million debt financing to fund commercialization initiatives for its STERIZONE® VP4 Sterilizer and announced that it had decided not to renew the distribution agreements with Getinge. See Note 16.

As of June 30, 2018, the Company had positive working capital of $6.8 million, an accumulated deficit of $111.7 million and a net loss of $8.5 million for the quarter ended June 30, 2018. The attainment of profitable operations is dependent upon future events, including generating revenues from the sale of its products that will support its cost structure through its own distribution network and/or through a successful distribution agreement and gaining market acceptance for its products. The uncertainties related to these various conditions may cast doubt on the Company's ability to continue as a going concern.

In the event that the Company would not achieve its expected sales, the Company may be required to reduce or delay operating expenses as deemed appropriate to in order to conserve cash or to raise additional capital or financing within the next year, in order to continue the production and commercialization of its products and to continue to fund operations at the current cash expenditure levels.

Our interim consolidated financial statements as of June 30, 2018 have been prepared under the assumption that the Company will continue as a going concern for the next twelve months. Our ability to continue as a going concern is dependent upon our ability to generate additional revenue from the sale of units by the Company, attain further operating efficiencies, obtain additional equity and or debt financing and or to reduce expenditures. Our interim consolidated financial statements as of June 30, 2018 did not include any adjustments that might result from the outcome of this uncertainty.

New standard adopted by the Company

IFRS 9 Financial Instruments

In 2014, the IASB completed its project to replace IAS 39 Financial Instruments: Recognition and Measurement with IFRS 9. IFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) impairment for financial assets and 3) general hedge accounting. IFRS 9 is effective for annual periods beginning on or after January 1, 2018.

TSO_3 adopted IFRS 9 in its financial statements from January 1, 2018 applying the transition provisions set out in IFRS 9. The Company elected not to restate comparatives and therefore the effect of applying the standard was recognized at the date of initial application (January 1, 2018). For classification and measurement, the requirements of IFRS 9 were applied to financial assets that have not been derecognized as at January 1, 2018. There was no material impact to the Company's financial position, statement of loss and comprehensive loss, or cash flows as a result of the adoption. The new accounting policies are described below.

Notes to the Interim Condensed Consolidated Financial Statements

Periods ended June 30, 2018 and 2017 (Unaudited, in thousands of US dollars, unless otherwise indicated)

2. Accounting Policies (cont'd)

New standard adopted by the Company (cont'd)

IFRS 15 Revenue from Contracts with Customers

The IASB also published IFRS 15 Revenue from Contracts with Customers, which replaces IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations. IFRS 15 is effective for annual periods beginning on or after January 1, 2018.

TSO_3 adopted IFRS 15 in its financial statements from January 1, 2018. The adoption of the new standard was applied using the modified retrospective method, with the effect of initially applying this standard recognized at the date of initial application (January 1, 2018). There was no impact to the Company's financial position, statement of loss and comprehensive loss, or cash flows as a result of the adoption. The new accounting policies are described below.

New accounting policies applicable starting January 1, 2018

Revenue Recognition

The Company recognizes revenue from the following major sources:

- Sale of sterilizers and associated license fees;
- Related spare parts, consumable supplies and accessories
- Maintenance services

Sale of sterilizers and associated license fees

The Company sells sterilizers directly to customers. Revenue is recognized when control of the goods are transferred to customers, being at the point the goods are delivered.

The Company signed a five-year exclusive distribution agreement with Getinge Infection Control AB ("Getinge") in 2015 that includes the sale of sterilizers under a formula for minimum unit shipments in exchange for an upfront licensing fee for the exclusive distribution right and a per unit fee payable upon delivery of sterilizers over the term. Revenue has been measured based on the consideration specified in this agreement. The upfront fee has been recognized as revenue on the basis of estimated future expected sales of sterilizers and has been recorded as revenue when control of the sterilizers transfers to the customer which is upon delivery at Getinge's location.

No sterilizers were delivered to Getinge during the first six months and, as the parties entered into renegotiation, the Company has deferred the appropriate accounting treatment of the deferred license fee in the period. The Company expects to apply the appropriate accounting treatment of this license fee in the future a manner appropriately in reflection of the results of the Getinge negotiations.

Related spare parts, consumable supplies and accessories

The Company sells related spare parts, consumable supplies and accessories directly to customers.

Revenue is recognized when control of the goods are transferred to customers, being at the point the goods are delivered.

Notes to the Interim Condensed Consolidated Financial Statements

Periods ended June 30, 2018 and 2017 (Unaudited, in thousands of US dollars, unless otherwise indicated)

2. Accounting Policies (cont'd)

New standard adopted by the Company (cont'd)

Maintenance services

This service relates to maintenance work that may be required on the sterilizers. Revenue relating to the maintenance services is recognized when the service is performed.

Financial Income

Financial 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. Financial income is accounted for on an accrual basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

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 except for trade receivables which are recognized at the transaction price. All recognized financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortized cost or fair value on the basis of the Company's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

The following illustrates the classification and measurement of financial assets and liabilities under IFRS 9 and IAS 39 at the date of initial application:

Financial assets/liabilities	Original measurement category (IAS 39)	New measurement category (IFRS 9)
Cash	Loans and Receivables	Amortized Cost
Cash Equivalents	Fair value through profit or loss	Fair value through profit or loss
Investments	Fair value through profit or loss	Fair value through profit or loss
Accounts Receivable	Loans and Receivables	Amortized Cost
Accounts Payable and Accrued Liabilities	Other Liabilities	Other Liabilities

Cash and Cash Equivalents

Cash and cash equivalents include cash and investments with maturities of three months or less from the date of acquisition. These investments are highly liquid and are held for the purpose of meeting short and long term cash commitments. Therefore the cash equivalent is recorded at fair value through profit or loss. Increases and decreases in fair value are recognized as investment income.

Investments

Investments are instruments presented at fair value through profit or loss because they will be used for short and long-term cash commitments. These investments are recorded at fair value. Increases and decreases in fair value are recognized as investment income.

Notes to the Interim Condensed Consolidated Financial Statements

Periods ended June 30, 2018 and 2017 (Unaudited, in thousands of US dollars, unless otherwise indicated)

2. Accounting Policies (cont'd)

New standard adopted by the Company (cont'd)

Accounts Receivables

Accounts receivables as outlined in note 7 are measured at amortized cost using the effective interest method.

Accounts payable and Accrued Liabilities

Accounts payable and accrued liabilities are accounted for at amortized cost using the effective interest method.

Transaction Costs

Transaction costs related to financial assets presented at fair value are expensed as incurred. Transaction costs related to other liabilities and to the financial assets presented at amortized cost 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.

Fair Value

The fair value of a financial instrument is defined as the price that would be received to sell an asset or pay to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities approximates their carrying values due to the short-term maturities of these items.

Impairment of financial assets

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss (ECL) model as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires the Company to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognized.

Specifically, IFRS 9 requires the Company to recognize a loss allowance for expected credit losses on debt investments subsequently measured at amortized cost or at FVTOCI. In particular, IFRS 9 requires the Company to measure the loss allowance for a financial instrument at an amount equal to the lifetime ECL if the credit risk on that financial instrument has increased significantly since initial recognition, or if the financial instrument is a purchased or originated credit-impaired financial asset. IFRS 9 also provides a simplified approach for measuring the loss allowance at an amount equal to lifetime ECL for trade receivables in certain circumstances.

Provision for repurchase

The provision for repurchase relates to the upgrades performed on sterilizers held by Getinge. Due to the potential repurchase of those upgraded sterilizers as per the Co-Commercialization Agreement, a provision for repurchase and a corresponding adjustment to revenue is recognized for those upgrades subject to be repurchased.

Notes to the Interim Condensed Consolidated Financial Statements

Periods ended June 30, 2018 and 2017 (Unaudited, in thousands of US dollars, unless otherwise indicated)

2. Accounting Policies (cont'd)

New standard adopted by the Company (cont'd)

Provision for repurchase (cont'd)

Similarly, the Company has a right to repurchase the upgraded sterilizers, so consequently the Company recognizes a right to repurchased goods asset included in the inventory and a corresponding adjustment to cost of sales for an aggregate amount of $0.3.

3. Future Accounting Changes

On September 16, 2014, the IASB published an amendment to IFRS 10 – Consolidated Financial Statements and to IAS 28 - Investments in Associates and Joint Ventures. The amendment "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture" clarifies the accounting for the gain or loss resulting from loss of control or from transfer of assets following a transaction with an associate or joint venture. Originally, the provisions of this amendment were supposed to apply prospectively to financial statements beginning on or after January 1, 2016.

The Company closely monitors both new accounting standards and amendments to existing accounting standards issued by the IASB. The Company is currently assessing how adoption of new and amended IASB accounting standards will impact the consolidated financial statements. Aside from the adoption of IFRS 9 and IFRS 15 on January 1, 2018, there have been no significant updates to the future accounting policy changes disclosed in Note 3 to the audited annual consolidated financial statements for the year ended December 31, 2017.

4. Financial (income) expenses

	Second Quarter		Six months	
	2018	2017	**2018**	2017
	$	$	**$**	$
Financial Income				
Investment Income	**(34)**	(16)	**(62)**	(91)
Financial Expenses				
Bank Charges	**16**	13	**29**	24
Factoring Cost	**2**	20	**3**	38
Foreign Exchange Loss	**4**	32	**4**	39
	22	65	**36**	101
Total Financial (Income) Expenses	**(12)**	49	**(26)**	10

5. Additional Information on the Consolidated Statements of Loss and Comprehensive Loss

Expenses in cost of sales, research and development as well as selling, general and administrative include the following:

	Second Quarter		Six months	
	2018	2017	**2018**	2017
	$	$	**$**	$
Salary and Other Benefits	**1,971**	1,849	**4,239**	3,714
Share-based compensation expense	**627**	592	**998**	1,201
Depreciation of Property, Plant and Equipment	**242**	177	**509**	299
Amortization of Intangible Assets	**50**	44	**98**	90
Research and Development Tax Credits	**(33)**	(29)	**(66)**	(60)

Notes to the Interim Condensed Consolidated Financial Statements

Periods ended June 30, 2018 and 2017 (Unaudited, in thousands of US dollars, unless otherwise indicated)

6. Financial Instruments

Cash and Cash Equivalents

	June 30, 2018 $	December 31, 2017 $
Cash and cash equivalents	**5,056**	8,044

Investments

	June 30, 2018 $	December 31, 2017 $
Short-term Investments		
Bonds	**1,617**	6,764
	1,617	6,764

Accounts Receivable

	June 30, 2018 $	December 31, 2017 $
Accounts Receivable	**727**	651

Accounts Payable and Accrued Liabilities

	June 30, 2018 $	December 31, 2017 $
Accounts Payable and Accrued Liabilities	**1,894**	2,430

Investments were rated A+ or better and had an average yield of 1.69% as compared to 1.48% as at December 31, 2017.

Bonds held by the Company are classified as level 1 under IFRS 13 because their valuation model is based on quoted prices included in Level 1 that are observable for the assets. Their fair value is calculated using the market value on the measurement date.

7. Accounts Receivable

	June 30, 2018 $	December 31, 2017 $
Receivables from Clients and Related Parties	**475**	217
Government Credits Receivable	**252**	434
	727	651

There were no bad debt allowances as at June 30, 2018 nor as at December 31, 2017.

Notes to the Consolidated Financial Statements

Periods ended June 30, 2018 and 2017 (Unaudited, in thousands of US dollars, unless otherwise indicated)

8. Property, Plant and Equipment

During the second quarter ended June 30, 2018, the Company acquired a total of $0.1 million in property, plant and equipment. During the year ended December 31, 2017, the Company acquired $1.2 million in equipment and tools, marketing demonstration equipment, medical devices in the Company's laboratories in Canada and in the United States, computer equipment and leasehold improvements; and also capitalized $0.3 million for STERIZONE® VP4 Sterilizers used internally and externally.

9. Intangible Assets

During the six-month period ended June 30, 2018, the Company acquired $0.1 million of new patents and software. During the year ended December 31, 2017, the Company acquired $0.2 million in patents and software.

10. Deferred Revenues

On November 25, 2015, the Company and Getinge entered into an exclusive distribution agreement (the Getinge Agreement) to distribute the STERIZONE® VP4 Sterilizer worldwide. Included in this agreement was an upfront license fee payment of $7.5 million from Getinge to the Company. The Company expects to apply the appropriate accounting treatment of this license fee in the future in a manner which reflects the results of the Getinge negotiations. See Note 16.

Sales to Getinge were made in US dollars.

Current deferred revenues also include the unamortized portion of prepaid service contracts covering a part of the installed base of STERIZONE® Sterilizers in Canada.

11. Share Capital

Authorized:

The authorized capital of the Company consists of an unlimited number of common shares and an unlimited number of preferred shares.

The common shares are voting, participating and without par value.

The preferred shares are non-voting and without par value. They have priority over the common shares for dividends and a distribution of their capital upon liquidation of the Company, and are issuable in series, each series bearing the number of shares, designation, rights, privileges, restrictions and conditions determined by the Board of Directors upon their issue.

Issued:

	June 30, 2018		December 31, 2017	
Issued and Paid	**Number of Common Shares**	**$**	Number of Common Shares	$
Balance at Beginning	**92,854,304**	**111,215**	91,977,214	110,406
Options Exercised	**37,000**	**39**	877,090	809
Balance at the End	**92,891,304**	**111,254**	92,854,304	111,215

During the three-month period ended June 30, 2018, pursuant to the Company's Stock Option Plan, no stock options were exercised. During the year ended December 31, 2017, 877,090 options were exercised for an aggregate cash consideration of $0.5 million.

Notes to the Consolidated Financial Statements

Periods ended June 30, 2018 and 2017 (Unaudited, in thousands of US dollars, unless otherwise indicated)

11. Share Capital (cont'd)

Employee Stock Purchase Plan

On May 2, 2007, the Company set up an employee stock purchase plan for employees and executives. Eligible participants may contribute, in the form of payroll deductions, up to 5% of their base salary. The Company contributes an amount equal to 50% of the participant's total monthly contribution. Each month, the participants' and Company's contributions are transferred to an investment dealer who purchases, on the open market and promptly upon reception of the contributions, shares for a total purchase price equal to the amount of such contributions.

Deferred Share Unit Plan

DSUs are awarded in connection with the 2016 Stock Incentive Compensation Plan. Under this plan, each eligible person receives a portion of his or her compensation in the form of DSUs. DSUs awarded pursuant to the Company's plan generally vest 50% at award date and the other 50% vest over a period of one year. DSUs are payable on the termination of service of the participant. The value of a DSU is determined based on the closing price of the Common Shares of the Company for the last trading day. The DSUs are settled in cash or in common share at the discretion of the Company when a person ceases to be eligible under the plan. For the purpose of repurchasing DSUs, the value of a DSU is determined based on the closing price of the Common Shares of TSO_3 for the last trading day prior to the repurchase of the DSUs.

As at June 30, 2018, no new DSUs were awarded (0.1 million as at June 30, 2017). During the six-month period ended June 30, 2018, TSO_3 recorded a compensation expense of $0.03 million ($0.1 million as at June 30, 2017) for its deferred share unit plan.

12. Reserve – Share-Based Compensation

The Company's Board of Directors adopted the 2016 Stock Incentive Compensation Plan which includes the award of stock options. The plan was approved by the shareholders. The total number of common shares that can be issued under this plan for all forms of award from the Company's share capital was 9.3 million as at June 30, 2018, (9.3 million as at December 31, 2017). The options awarded pursuant to this plan generally vest over a three-year period and may be exercised within a maximum of 10 years from the date of award.

During the six-month period ended June 30, 2018, the Company awarded 0.4 million stock options, (0.6 million for the same period in 2017) at a weighted average exercise price of $0.92 or CAD$1.21 ($2.08 or CAD$2.83 for the same period in 2017). The weighted average fair value of these stock options was $0.55 or CAD$0.73 for the six-month period of 2018 ($1.36 or CAD$1.86 for the same period in 2017).

The share-based compensation expense pertaining to the award of options is amortized using the graded vesting method and represents a share-based compensation expense of $1.0 million for the six-month period ended June 30, 2018 ($1.2 million for the same period in 2017) presented in the Interim Condensed Consolidated Statements of Loss and Comprehensive Loss in the functions based on the option holders.

Notes to the Consolidated Financial Statements

Periods ended June 30, 2018 and 2017 (Unaudited, in thousands of US dollars, unless otherwise indicated)

12. Reserve – Share-Based Compensation (cont'd)

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

US$	**June 30, 2018 $**	December 31, 2017 $
Weighted Average Share Price	**$0.92**	$2.20
Exercise Price	**$0.92**	$2.20
Risk Free Interest Rate	**2.08%**	1.76%
Estimated Share Price Volatility	**60%**	61%
Expected Life	**7 years**	8 years
Expected Dividend Yield	**0%**	0%

The share-based compensation expenses take into account an estimate of the number of options and DSUs that will actually vest and be exercised. In addition, option pricing models such as the Black-Scholes model require highly subjective assumptions, including the assumed stock price volatility of the underlying shares. Any change in the assumptions can materially affect the fair value estimates.

	June 30, 2018		December 31, 2017	
US$	**Number**	**Weighted Average Exercise Price $**	Number	Weighted Average Exercise Price $
Outstanding at beginning	**7,909,953**	**1.71**	7,024,231	1.39
Granted	**425,000**	**0.92**	2,977,080	2.13
Exercised	**(37,000)**	**0.62**	(877,090)	0.65
Expired	**(21,000)**	**1.48**	(19,600)	2.03
Forfeited	**(700,335)**	**2.24**	(1,194,668)	2.19
Outstanding at end	**7,576,618**	**1.55**	7,909,953	1.71
Exercisable at end	**3,428,106**	**1.19**	3,177,566	1.33

The following table summarizes certain information regarding the stock options of the Company as at June 30, 2018:

	Outstanding Options		**Exercisable Options**	
Exercise Price in US$	**Number**	**Average Remaining Contractual Life (year)**	**Number**	**Average Remaining Contractual Life (year)**
$0.00 (DSU's)	**138,134**	**Undetermined**	**138,134**	**Undetermined**
$0.01 to $0.80	**848,667**	**2.20**	**848,667**	**2.20**
$0.81 to $1.69	**3,131,067**	**6.53**	**1,947,561**	**5.43**
$1.70 to $2.76	**3,458,750**	**9.07**	**493,744**	**8.54**
	7,576,618	**8.41**	**3,428,106**	**7.79**

Notes to the Consolidated Financial Statements

Periods ended June 30, 2018 and 2017 (Unaudited, in thousands of US dollars, unless otherwise indicated)

12. Reserve – Share-Based Compensation (cont'd)

The following table summarizes certain information regarding the stock options of the Company as at December 31, 2017:

	Outstanding Options		Exercisable Options	
Exercise Price in US$	**Number**	**Average Remaining Contractual Life (year)**	**Number**	**Average Remaining Contractual Life (year)**
$0.00 (DSU's)	138,134	Undetermined	102,802	Undetermined
$0.01 to $0.80	875,667	2.76	875,667	2.76
$0.81 to $1.69	2,574,233	6.45	1,537,894	5.39
$1.70 to $2.89	4,321,919	9.38	661,203	8.45
	7,909,953	8.81	3,177,566	7.40

13. Additional Information Relating to Cash Flows

	Six months	
	2018	2017
	$	$
Changes in Non-Cash Operating Working Capital Items		
Decrease (Increase) in Assets		
Accounts Receivable	**(76)**	1,703
Inventories	**(625)**	(764)
Prepaid Expenses	**(153)**	(78)
Increase (Decrease) in Liabilities		
Accounts Payable and Accrued Liabilities	**(536)**	(72)
Provision for repurchase	**524**	-
Income Tax Payable	**(68)**	-
Warranty Provision	**(169)**	323
Current Deferred Revenues	**16**	21
Non-current Deferred revenues	**-**	(436)
Increase in Assets Transferred		
Property, Plant and Equipment Transferred to Inventories	**-**	27
	(1,087)	723

14. Segmented Information

The Company is structured as a single operating segment.

	Second Quarter		Six months	
Revenues	**2018** **$**	2017 $	**2018** **$**	2017 $
Canada and Worldwide	**101**	87	**152**	197
United States	**272**	4,543	**476**	8,644
	373	4,630	**628**	8,841

Notes to the Consolidated Financial Statements

Periods ended June 30, 2018 and 2017 (Unaudited, in thousands of US dollars, unless otherwise indicated)

14. Segmented information (cont'd)

	June 30, 2018			December 31, 2017		
	Inventories	**Property, Plant and Equipment**	**Intangible Assets**	Inventories	Property, Plant and Equipment	Intangible Assets
Canada and Worldwide	**1,923**	**1,154**	**1,856**	1,616	1,306	1,870
United States	**742**	**1,655**	**12**	424	1,878	16
	2,665	**2,809**	**1,868**	2,040	3,184	1,886

For the second quarter of 2018, revenue from Getinge represented 93% of the Company's total revenues (98% for the same period in 2017).

15. Loss per Share

The following table reconciles the basic and diluted loss per share for the periods ended June 30:

	Second Quarter		**Six months**	
In thousands of US $, except per share amounts	**2018 $**	2017 $	**2018 $**	2017 $
Net loss				
Basic and Diluted	**(3,952)**	(2,254)	**(8,464)**	(4,234)
Number of Shares				
Weighted Average Number of Outstanding Shares	**92,891**	92,328	**92,884**	92,162
Number of Shares				
Weighted Average Number of Outstanding Shares Diluted[(1)]	**92,891**	92,328	**92,884**	92,162
Loss per Share				
Basic and Diluted	**(0.04)**	(0.02)	**(0.09)**	(0.05)
Comprehensive loss per Share Basic and Diluted	**(0.04)**	(0.02)	**(0.09)**	(0.05)

1) If the Company had a profit, the weighted average number of outstanding shares diluted would have been increased by 1.4 million as at June 30, 2018 (5.8 million as of June 30, 2017) for the calculation of the diluted net loss per share.

16. Subsequent Event

On August 1, 2018, the Company announced that TSO_3 and a fund, of which Courage Capital Management LLC ("Courage") is the investment advisor, have entered into a binding $20 million debt financing to fund commercialization initiatives for its STERIZONE® VP4 sterilizer.

The $20 million financing is provided in two separate but concurrent transactions in the form of a $15 million first lien convertible note (the "Convertible Note") and a $5 million first lien term loan (the "Term Loan"). The financings are not expected to materially affect control of the Company as the transaction has provisions preventing the conversion of the Convertible Note should the debt conversion result in the issuance of common shares greater than 19.9% at the time of issuance.

The Convertible Note and the Term Loan include standard negative and affirmative covenants commensurate with transactions of this type. Under and subject to the terms of the Convertible Note and the Term Loan, Courage has the right to propose one nominee for election to the board of TSO_3.

Notes to the Consolidated Financial Statements

Periods ended June 30, 2018 and 2017 (Unaudited, in thousands of US dollars, unless otherwise indicated)

16. Subsequent event (cont'd)

Concurrent with the Courage financing, TSO_3 and Getinge announced that they mutually decided not to renew the distribution agreements between the parties, and have agreed to: 1) provide TSO_3 unrestricted independent commercialization of its STERIZONE® VP4 sterilizers; 2) the Company's purchase of approximately 230 STERIZONE® VP4 Sterilizers for $33,000 per sterilizer; 3) transfer Getinge's existing sales pipeline to TSO_3 in exchange for shared economics at the completion of sale; and 4) transition to TSO_3 the service, maintenance and consumables sales of all existing STERIZONE® VP4 sterilizer customers in the United States and Canada.

The Company is currently evaluating the impact the termination of the distribution agreement will have on the financial statements with respect to the accounting for the deferred license fee revenue. This accounting could have a significant impact on the financial statements.

17. Approval of Financial Statements

The interim condensed consolidated financial statements were approved by the Board of Directors on August 7, 2018.