



TSO₃ Reports Second Quarter 2018 Results

Quebec City, Canada and Myrtle Beach, United States, – August 7, 2018 – TSO₃ Inc. (TSX: TOS) ("TSO₃" or the "Company"), an innovator in sterilization technology for medical devices in healthcare settings, reported financial results for the second fiscal quarter ended June 30, 2018.

2018 Second Quarter Financial Summary

- Revenues equaled \$0.4 million, as compared to \$0.3 million in the first quarter of 2018 and \$4.6 million in the second quarter of 2017. TSO₃ recorded revenue from sales of consumables, accessories and service parts, and did not record revenue from STERIZONE[®] VP4 sterilizer sales or license fee amortization in the quarter. In the second quarter of 2017, the Company shipped 40 sterilizers to Getinge Infection Control AB ("Getinge"), the Company's former exclusive distributor, and recorded \$0.2 million in license fee revenue.
- The Company delivered upgrades of 47 STERIZONE[®] VP4 Sterilizers to Getinge, totaling \$0.5 million. In lieu of recording revenue, the Company recorded an associated \$0.5 million repurchase provision and retained \$0.3 million of associated upgrade costs of sales in inventory.
- Gross profit was positive \$0.1 million, as compared to negative (\$0.3) million in the first quarter of 2018 and \$1.8 million in the second quarter of 2017. The Company generated gross profit from sales of consumables, accessories and service parts, but did not record gross profit contribution from sterilizer sales and license fee revenue, as it had in the same period in 2017.
- Research and Development expenses were \$1.5 million, as compared to \$1.7 million in the first quarter of 2018 and \$1.5 million in the year-ago quarter.
- Sales, General and Administrative expenses were \$2.5 million, as compared to \$2.6 million in the first quarter of 2018 and \$2.4 million in the year-ago quarter.
- The Company's net loss was \$(4.0) million or \$(0.04) per share in the second quarter of 2018, as compared to \$(4.5) million, or \$(0.05) per share, in the first quarter of 2018 and to \$(2.3) million or \$(0.02) per share in the year-ago quarter.
- The Company had \$6.7 million in cash, cash equivalents and investments and no debt as of June 30, 2018, as compared to \$14.8 million and no debt at the end of 2017. In the second quarter of 2018, the Company used \$3.1 million for operations excluding changes in non-cash working capital, and \$0.1 million for changes in non-cash working capital.

Business Highlight

The Company received clearance from US Regulators for its most recent 510(k) submission for the terminal sterilization of multi-channeled flexible endoscopes using the Company's STERIZONE[®] VP4 Sterilizer. The new clearance allows a hospital to terminally sterilize gastrointestinal endoscopes that have dimensions within the cleared intended use, such as certain colonoscopes, duodenoscopes and gastroscopes which have four or less channels, are up to 3.5 meters in length with internal diameters of 1.2 mm or greater.

Subsequent Event

Subsequent to the end of the second quarter of 2018, TSO₃ announced it and a fund of which Courage Capital Management LLC, (“Courage”) is the investment advisor, entered into a binding US\$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.

Concurrent with the Courage financing, TSO₃ and Getinge mutually decided not to renew the distribution agreements that had existed between the parties and agreed to provide TSO₃ unrestricted independent commercialization of its STERIZONE[®] VP4 Sterilizers, enable the Company’s purchase of STERIZONE[®] VP4 Sterilizers from Getinge and transition the existing sales pipeline along with the service, maintenance and consumables sales of all existing STERIZONE[®] VP4 Sterilizer customers in the United States and Canada to TSO₃.

<http://www.newswire.ca/en/releases/archive/August2018/01/c6531.html>

Supplemental Non-IFRS Financial Measures

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.

Additional Second Quarter 2018 Financial information

\$000's	2018				2017	
	Q2	Q1	Q4	Q3	Q2	Q1
Net loss	(3,952)	(4,512)	(1,449)	(1,771)	(2,254)	(1,980)
Financial expenses (income)	(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)

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.

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	(12)	49	(26)	10
Total Expenses	3,999	3,984	8,240	7,508
Net loss before income taxes	(3,945)	(2,225)	(8,247)	(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)

Interim Consolidated Statements of Financial Position

(Unaudited, in thousands of US dollars)

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

Interim Consolidated Statements of Cash Flows

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

	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	998	1,201
Investment income	(62)	(91)
	(6,921)	(2,679)
Changes in non-cash operating working capital items	(1,087)	723
Interest received	83	103
Cash flows (used in) generated 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	(134)	(909)
Acquisition of intangible assets	(80)	(151)
Cash flows generated by investing activities	4,912	5,030
Cash flows from financing activities		
Options exercised	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

Q2 Results Conference Call

Date: August 8, 2018

Time: 8:30 a.m. EDT

Toll-free dial-in number: 1-888-231-8191

International dial-in number: 1-514-807-9895 (Montreal); 1-647-427-7450 (Toronto)

Conference ID: 1888566

TSO₃'s President and CEO R.M. (Ric) Rumble and CFO Glen Kayll, will host the conference.

Analysts and investors are invited to participate on the call. Please call the conference telephone number 5-10 minutes prior to the start time. An operator will register your name and organization. If you have any difficulty connecting with the conference call, please contact Gilmartin Group at 1-610-368-6505.

Other interested parties may listen to the live webcast of the conference call at

<https://event.on24.com/wcc/r/1797562/02A40374E09B0B081C77081E12FCBA62> which will be available for replay in the Investors section of the Company's website at www.tso3.com.

About the STERIZONE[®] VP4 Sterilizer

The STERIZONE[®] VP4 Sterilizer is a low-temperature sterilization system that utilizes the dual sterilants of vaporized hydrogen peroxide (H₂O₂) and ozone (O₃) to achieve terminal sterilization of heat and moisture-sensitive medical devices. Its single pre-programmed cycle can sterilize a large number and wide range of compatible devices, creating a cost-effective sterilization process with error-free cycle selection. The device's unique Dynamic Sterilant Delivery System[™] automatically adjusts the quantity of injected sterilant based on the load composition, weight and temperature. This capability removes the guesswork and potential for human error, as there is no need to sort instruments and choose the appropriate cycles as with other machines.

The STERIZONE[®] VP4 Sterilizer is the only terminal sterilization method that is FDA cleared to sterilize multi-channeled flexible endoscopes (with a maximum of four channels) of up to 3.5 meters in length,

such as video colonoscopes, duodenoscopes and gastroscopes - an industry first for any medical device sterilization process.

The STERIZONE[®] VP4 Sterilizer is also the only cleared low temperature sterilizer that can process a mixed load consisting of general instruments, single channel flexible endoscopes, and single or double channel rigid endoscopes in the same cycle with load weights of up to 75 lb. The ability to run mixed loads significantly reduces labor costs by minimizing the amount of instrument sorting required, while maximizing the device turns (more productivity from increased throughput capacity).

More information about the STERIZONE[®] VP4 Sterilizer is available through TSO₃'s website, under the Products section.

About TSO₃

Founded in 1998, TSO₃'s activities encompass the sale, production, maintenance, research, development and licensing of sterilization processes, related consumable supplies and accessories for heat-sensitive medical devices. The Company designs products for sterile processing areas in the hospital environment that offer an advantageous replacement solution to other low temperature sterilization processes currently used in hospitals. TSO₃ also offers services related to the maintenance of sterilization equipment and compatibility testing of medical devices with such processes.

For more information about TSO₃, visit the Company's website at www.tso3.com.

The statements in this release and oral statements made by representatives of TSO₃ relating to matters that are not historical facts are forward-looking statements that involve certain risks, uncertainties and hypotheses, including, but not limited to, the limited history of sales or distribution of the Company, the ability of the Company to obtain the required regulatory clearances to market its products, general business and economic conditions, the condition of the financial markets, the ability of TSO₃ to obtain financing on favourable terms and other risks and uncertainties. Although TSO₃ believes that the expectations reflected in such forward-looking statements are reasonable, it can give no assurance that such expectations will prove to have been correct. The complete versions of the cautionary note regarding forward-looking statements as well as a description of the relevant assumptions and risk factors likely to affect TSO₃'s actual or projected results are included in the Management's Discussion and Analysis for the year ended December 31, 2017, which is available on the Company's website. The forward-looking statements contained in this press release are made as of the date hereof, and TSO₃ does not assume any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise unless expressly required by applicable securities laws.

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Source: TSO₃ Inc.

For further information

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