



TSO₃ Reports Third Quarter 2018 Results

Quebec City, Canada and Myrtle Beach, United States, – November 6, 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 third fiscal quarter ended September 30, 2018.

Business Highlights

In the third quarter of 2018, TSO₃ shipped four STERIZONE[®] VP4 Sterilizers to end users. As of November 6, 2018, a cumulative 68 STERIZONE[®] VP4 Sterilizers have been shipped to end users (59 installed, nine to be installed). In addition, the Company has a further 22 units of backlog for future shipments through customer purchase orders or commitments, ten of which were received subsequent to the end of the quarter and were directly related to TSO₃ only activity. The Company now has a total of 90 sterilizers either installed, to be installed or committed to be shipped.

On August 1, 2018, TSO₃ announced that 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.

"TSO₃ has established a goal to ship or receive commitments for 200 STERIZONE[®] VP4 Sterilizers by the end of 2019", stated R.M. (Ric) Rumble, President and CEO of TSO₃. "We have now purchased the inventory we need at favourable pricing, raised capital and hired and trained a team of experienced sales and service personnel in support of this goal."

2018 Third Quarter Financial Summary

- Revenues equaled \$0.8 million, as compared to \$0.4 million in the second quarter of 2018 and \$5.1 million in the third quarter of 2017. TSO₃ revenues in the third quarter of 2018 reflect sales of sterilizers, consumables, accessories and service parts. The Company shipped four sterilizers to hospitals in the third quarter of 2018 as opposed to 44 sterilizers to its former distributor in the same period last year.
- Gross profit was \$1.2 million, as compared to \$0.1 million in the second quarter of 2018 and \$2.0 million in the third quarter of 2017. The Company generated gross profit from sales of sterilizers, consumables, accessories and service parts. Gross profit includes a \$0.8 million reversal of the warranty provision associated with inventory purchased from the Company's former distributor.
- Financial income was \$0.6 million, as compared to immaterial amounts in both the second quarter of 2018 and third quarter of 2017. The Company recorded \$0.5 million of accrued interest expense related to a \$20.0 million debt financing it obtained on August 1, 2018 and a non-cash gain of

\$1.1 million on the revaluation of the embedded derivative within the Convertible Note associated with this financing.

- The Company's net loss was \$(2.1) million or \$(0.02) per share in the third quarter of 2018, as compared to \$(4.0) million, or \$(0.04) per share, in the second quarter of 2018 and to \$(1.8) million or \$(0.02) per share in the year-ago quarter.
- The Company had \$16.1 million in cash, cash equivalents and investments as of September 30, 2018, as compared to \$14.8 million at the end of 2017. In the third quarter of 2018, the Company raised \$20 million in debt financing (\$19.7 million net of expenses) and used \$1.7 million for operations excluding changes in non-cash working capital, and \$8.7 million for changes in non-cash working capital, which includes \$7.9 million used for the repurchase of 230 STERIZONE[®] VP4 Sterilizers and associated accessories from its former distribution partner.
- Inventories were \$4.0 million as of September 30, 2018, as compared to \$2.0 million at the end of 2017. During the third quarter of 2018, the Company bought 230 sterilizers and associated accessories for \$7.9 million from its former distributor and applied an unamortized \$6.0 million balance of deferred license fees associated with its former distribution agreement to these repurchased units. In addition, the Company also applied the repurchase provision of \$0.5 million it recorded in the second quarter of 2018 in relation to the upgrades of 47 STERIZONE[®] VP4 sterilizers against finished goods.

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 remove significant unusual items that do not reflect the recurring and ongoing operating results and trends.

Additional Third Quarter 2018 Financial information

\$000's	2018				2017		
	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Net loss	(2,104)	(3,952)	(4,512)	(1,449)	(1,771)	(2,254)	(1,980)
Financial expenses (income)	(599)	(12)	(14)	74	48	49	(39)
Amortization and depreciation	270	292	315	246	331	221	168
Share-based compensation expense	688	627	371	301	632	592	609
Income taxes	11	7	-	(59)	33	29	27
Adjusted Ebitda	(1,734)	(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 September 30, 2018 and 2017 (Unaudited, IFRS Basis, in thousands of US dollars, except per share amounts)

	Third Quarter		Nine months	
	2018	2017	2018	2017
	\$	\$	\$	\$
Revenues	782	5,105	1,410	13,946
Cost of sales	(394)	3,102	451	8,613
	1,176	2,003	959	5,333
Expenses				
Research and development	1,260	1,562	4,452	4,456
Selling, general and administrative	2,608	2,131	7,681	6,735
Financial (income) expenses	(599)	48	(624)	58
Total Expenses	3,269	3,741	11,509	11,249
Net loss before income taxes	(2,093)	(1,738)	(10,550)	(5,916)
Income taxes	11	33	18	89
Net loss and comprehensive loss	(2,104)	(1,771)	(10,568)	(6,005)
Weighted average number of outstanding shares (in thousands)	93,208	92,842	93,009	92,258
Basic and diluted net loss per share	(0.02)	(0.02)	(0.11)	(0.07)
Basic and diluted net comprehensive loss per share	(0.02)	(0.02)	(0.11)	(0.07)

Interim Consolidated Statements of Financial Position

(Unaudited, in thousands of US dollars)

	September 30, 2018	December 31, 2017
	\$	\$
Current Assets		
Cash and Cash Equivalents	16,082	8,044
Short-term Investments	-	6,764
Accounts Receivable	855	651
Inventories	3,976	2,040
Prepaid Expenses	238	150
	21,151	17,649
Non-current Assets		
Property, Plant and Equipment	2,592	3,184
Intangible Assets	1,839	1,886
	4,431	5,070
	25,582	22,719
Current Liabilities		
Accounts Payable and Accrued Liabilities	2,055	2,430
Warranty Provision	251	1,263
Current Tax Liabilities	11	68
Deferred Revenues	16	6
	2,333	3,767
Non-current Liabilities		
Deferred Tax Liabilities	17	17
Debt	17,364	-
Embedded Derivative	1,693	-
Deferred Revenues	-	6,044
	21,407	9,828
Equity		
Share Capital	111,471	111,215
Reserve – Share-based Compensation	8,170	6,574
Deficit	(113,754)	(103,186)
Accumulated Other Comprehensive Loss	(1,712)	(1,712)
	4,175	12,891
	25,582	22,719

Interim Consolidated Statements of Cash Flows

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

	2018	Nine months 2017
	\$	\$
Cash flows from operating activities		
Net loss	(10,568)	(6,005)
Adjustments for:		
Depreciation and amortization	877	715
Loss on write-down of property, plant and equipment	66	39
Deferred income tax liabilities	-	89
Share-based compensation	1,686	1,833
Capitalized interest on long term debt	445	-
Embedded derivative (gain) recognized in net loss	(1,103)	-
Investment income	(69)	(138)
	(8,666)	(3,467)
Changes in non-cash operating working capital items	(9,772)	883
Interest received	106	127
Cash flows used in by operating activities	(18,332)	(2,457)
Cash flows from investing activities		
Acquisition of investments	-	(2,909)
Disposal of investments	6,726	11,015
Acquisition of property, plant and equipment	(136)	(1,057)
Acquisition of intangible assets	(102)	(190)
Proceed from disposal of property, plant and equipment	-	2
Cash flows generated by investing activities	6,488	6,861
Cash flows from financing activities		
Issuance of debt net of financing fees	19,666	-
Financing fee recognized in net loss	50	-
Options exercised	166	540
Cash flows generated by financing activities	19,882	540
Increase in cash and cash equivalents	8,038	4,944
Cash and cash equivalents at the beginning	8,044	2,698
Cash and cash equivalents at the end	16,082	7,642

Results Conference Call

Date: Wednesday, November 7, 2018

Time: 8:30 a.m. EST

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: 4598474

Analysts and investors are invited to participate to 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 to 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/1863190/0A8CDB0936AF81795D977C263FE1FCCC> 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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