2018 ANNUAL REPORT

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Message from the Chairperson of the Board and the President and Chief Executive Officer

Dear shareholders,

2018 was an important transition year for TSO_3. After a thorough strategic review process with our Board of Directors and management, it was decided that the best path forward to accelerate the market's adoption of our technology was to take control of our entire distribution channel. After allowing our exclusive/co-commercialization distribution agreements with our commercial partner to expire, we redeployed our resources and shifted our entire organization's focus to a direct commercialization strategy, with the single goal of deploying our innovative technology.

In order to support our new direct commercialization model, we concluded a $20.0 million financing agreement in August of 2018. This allowed us to repurchase our distributor's inventory of STERIZONE® VP4 Sterilizers at favourable pricing and build our internal team of sales specialists. After six months, we can say that we are now in full control of our sales and distribution activities. Having our own dedicated sales and service team covering key markets in North America allows us to identify opportunities, anticipate customer requirements and provide world-class customer service.

Our objective in 2019 is to quickly reach a critical mass of installed in-use sterilizers. In order to achieve this, we are employing strategic pricing initiatives and working in partnership with our potential customers to develop solution-centric approaches that address their need for efficiency, efficacy and ease of use. While our sales process is still young, we are happy to see that we are beginning to produce tangible results as demonstrated by the 21 purchase orders secured in the last quarter of 2018. We are entering 2019 with visibility on more than 450 sterilizer opportunities verified by our own sales team.

Regulatory momentum and positive market outlook

We remain encouraged by the potential for our technology to displace legacy sterilization methods used by medical facilities in their operating room and central sterilization departments ("OR/CSSD"). Our STERIZONE® VP4 Sterilizer remains the newest technology available to medical facilities, offering improved efficiency, efficacy and patient safety. With an installed base of over 30,000 legacy systems globally, we are aggressively pursuing the North American market, which is at the core of our current and future growth potential.

Over the last few years, we have also pursued an important emerging market opportunity. In May 2018, we extended clearances of our sterilizer for the terminal sterilization of complex devices used by gastrointestinal departments ("GI"). Regulators and the medical community are also increasingly attentive to the threat of patient-to-patient cross contamination from improperly reprocessed scopes. To this effect, in December of 2018, the US Food and Drug Administration issued a Safety Communication reporting higher than expected contamination rates from reprocessed duodenoscopes. We continue to believe that this is an important public safety issue and that this recent scrutiny will create awareness and additional incentives for our proprietary sterilization process as it remains the only FDA cleared terminal sterilization technology capable of addressing this critical unmet medical need.

Governance Matters

In April 2018, the Board of Directors established an ad hoc “Special Committee” comprised of three independent directors. The mandate of the Special Committee was to assist management of the Company in its discussions with its former exclusive distribution partner relating to revision of the parties’ distribution relationship, and in its strategic review of alternatives for the Company.

In closing, we now have the technology, inventory, sales and service teams in place and a sales pipeline to pursue our objectives in 2019. Our team is experienced, focused, educated and driven to provide results. We look forward to updating you as the year unfolds.

Dr. Linda Rosenstock
Chairperson of the Board

Richard M. Rumble
President and Chief Executive Officer

Overview

General Description

TSO_3 Inc. ("TSO_3" or the "Company") was founded in June 1998 in Québec City, Canada and employed 57 people as at December 31, 2018. The Company commercializes a market ready FDA cleared proprietary low temperature sterilization technology for the reprocessing of heat and moisture sensitive medical devices. The Company's activities encompass the sale, production, maintenance, research, development and licensing of sterilization processes, related consumable supplies and accessories. Its products are designed to specifically address the changing requirements of sterile processing areas in operating rooms ("OR") or central sterilization departments ("CSSD"), and most recently, to provide terminal sterilization of complex medical devices used in the gastroenterology departments ("GI"). TSO_3 offers an advantageous replacement solution to other low temperature sterilization and high-level disinfection processes currently used by medical facilities to reprocess sensitive devices and instruments. The Company 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 growing US customer demands. The US represents 40+% of the worldwide market for low-temperature sterilization equipment and this country currently accounts for 80% of TSO_3's sales. The US subsidiary 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.

TSO_3's principal product is the STERIZONE® VP4 Sterilizer. The STERIZONE® VP4 Sterilizer is a dual sterilant, low temperature sterilization system that uses vaporized hydrogen peroxide (H_2O_2) and ozone (O_3) as its sterilants. TSO_3's innovative low-temperature dual sterilization technology is a highly efficient and cost effective alternative to these legacy technologies for the reprocessing and terminal sterilization of more complex, heat and moisture sensitive medical devices.

Addressing New Sterilization Challenges

Low temperature sterilization has been in use in the USA since the 1950s as an alternative to steam sterilization that can be damaging to delicate medical devices. With an aging population and the need to reduce costs and patient recovery times, medical facilities are increasingly performing Minimally Invasive Surgeries ("MIS") and diagnostic endoscopies. These new procedures require the use of delicate and complex medical devices which typically do not tolerate steam sterilization. In order to reprocess these sensitive devices, low temperature sterilization is typically used.

Common low-temperature reprocessing technologies[1] are based on hydrogen peroxide H_2O_2, ethylene oxide (EtO) or liquid high-level disinfection (HLD) solutions. These technologies have limitations, such as varying degrees of efficacy and processing capacity and facilities often need to implement a combination of these systems to meet their requirements. Additionally, EtO is associated with environmental and occupational health concerns and HLD does not provide the level of sterility assurance as offered by terminal sterilization.

In recent years, there have been growing concerns over patient-to-patient cross contamination of multidrug resistant bacteria associated with the use of some of these more complex devices in particular duodenoscopes and other long endoscopes which are reprocessed in HLD. Recognizing the medical industry's need for a single low temperature high effective and high efficacy sterilization system, TSO_3 decided to pursue regulatory clearances to specifically address the needs of this growing segment of the instrument reprocessing market.

[1] Low-Temperature Sterilization Technologies, the Center for Disease Control.

Recent Validation and Regulatory Clearances

The flagship STERIZONE® VP4 Sterilizer 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. In July 2016 and May 2018, TSO_3 announced that the FDA had also cleared TSO_3's expanded indications for use (IFUs) 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 or devices that were directly validated and submitted as part of the regulatory clearance.

These clearances allowed TSO_3 to initiate commercialization of its proprietary technology to help US healthcare providers improve their reprocessing practices with terminal sterilization of multi-channel flexible endoscopes that fall within the cleared indications, such as certain colonoscopes, gastroscopes and duodenoscopes.

Pioneering Dual Low Temperature Sterilization Technology

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 channelled devices;
- First low temperature sterilizer validated and cleared in the US, Europe and Canada to sterilize multi-channel endoscopes which have four or less channels and up to 3.5 meters in length with internal diameters of 1.2 mm or greater such as certain 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.

Low Temperature Sterilization Customers, Drivers and Markets

Low temperature sterilization reprocessing is performed in three distinct areas within acute care hospitals, including (a) the Company's primary target market: Central Sterilization ("CSSD"), (b) operating Rooms Sterile Processing area ("OR"), and (c) an important new emerging market: Gastroenterology departments ("GI").

All three departments have potential uses for the TSO_3 sterilization technology. The STERIZONE® Sterilization System can significantly improve efficiency, cost, risk mitigation and/or throughput in traditional CSSD and OR environments in hospitals.

The STERIZONE® VP4 Sterilizer demonstrated superior in-use benefits related to efficacy, throughput and costs such as:

- Risk mitigation – Patient Safety:
    - Broadest low temperature sterilization claims in the industry
    - Simple error-free single cycle selection (vs competitors who have up to four cycles from which to select)
    - Industry-first claims regarding the terminal sterilization of certain flexible endoscopes
- High-Throughput – Ease of use
    - Simple single cycle operation
    - Large loads (ability to sterilize 75 lb of capacity)
    - Mixed loads of instruments
    - Ability to process full instrument sets
- Cost Benefits – Lower Overall Costs
    - Fewer sterilizers needed to meet requirements
    - Lower monitoring costs
    - Lowest cost per instrument sterilized
    - Improved operating and service costs
    - Leverage existing hospital Instrument inventory

CSSD Market Opportunity

The potential North American market relating only to CSSD in hospitals is believed to represent 40%+ of the global market of approximately 30,000 installed low temperature sterilizers[2] each having a 10-year useful life. Since their introduction, hydrogen peroxide sterilizers have gained a significant portion of this potential market, despite their relatively high cost. The TSO_3 STERIZONE® VP4 Sterilizers are competitive in this potential market by offering rapid return on investment and immediate advantages over other systems such as hydrogen peroxide/plasma and Ethylene oxide ("EtO").

GI Emerging Market Opportunity

Certain flexible endoscopes reprocessed using industry standard HLD reprocessing techniques have recently been linked to patient to patient cross contamination of antibiotic resistant bacteria, leading to patient illness and death. As the only terminal sterilization technology that has received US regulatory clearance for certain of these endoscopes, terminal sterile reprocessing within GI represents a new emerging market opportunity for the Company's technology.

According to the Center for Disease Control and Prevention, there are approximately 15 million colonoscopies performed annually[3] in the United States and, according to the US FDA there are over 500,000 ERCP procedures (endoscopic retrograde cholangiopancreatographies) performed annually[4].

[2] Global Low Temperature Sterilization Market: Industry Analysis & Outlook. Koncept Analytics. January 2017.
[3] Center for Disease Control and Prevention, Cancer Prevention and Control (www.cdc.gov/cancer/), Colorectal Cancer Screening Capacity in the United States.
[4] US Food & Drug Administration News Release, September 20, 2017 "FDA clears first duodenoscope with disposable distal cap".

US regulatory authorities disclosed[5] on December 10, 2018 that contamination levels of patient-ready duodenoscopes from all manufacturers appear higher than previously expected given existing reprocessing protocols and that additional steps need to be taken to reduce the risk of infection between patients. Device manufacturers have been encouraged to develop additional strategies for reprocessing instrumentation. As the only sterilization technology having received US regulatory clearance for the terminal sterilization of complex multi-channel flexible endoscopes, TSO_3 believes it is well positioned to collaborate with device OEMs and medical facilities to improve processes that ensure patient safety.

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 (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.

Other methods that play a role in a sub-segment of low temperature reprocessing include liquid high-level disinfection and liquid chemical sterilization. These reprocessing 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.

Recently, a legacy technology, ethylene oxide (EtO), has seen some renewed interest based on its claim (albeit limited) to sterilize complex, multi-channelled flexible endoscopes. This renewed interest coincided with a US regulator suggestion, 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 more 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 adds significant time and cost to the reprocessing of instruments. Also, EtO inflicts increased damage on delicate flexible instruments, further increasing the cost associated with its use.

Each of these reprocessing methods offers benefits to customers, but TSO_3 believes that its product offers customers cost-effective and high throughput reprocessing of complex and expensive medical devices, as well as the regulatory clearances for terminal sterilization of the complex endoscopes included in its label claims. Customers must purchase and support a combination of products to meet their daily requirements for sterile instruments. TSO_3’s 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.

Commercialization Strategy

TSO_3’s targeted customer groups are primarily acute care and ambulatory care centers in the US and Canada. They are conservative in nature and the sales cycle is lengthy. Sterilization systems are mission critical infrastructure and purchasing decisions involve various decision makers. From surgeons, endoscopists, reprocessing and CSSD managers, infection control, risk management, purchasing departments all the way to the C-suite, each target audience has specific requirements that must be addressed. Purchasing decisions are made according to efficiency, efficacy, instrument flow, regulatory and quality compliance, impact on instruments, cost and risk reduction, group purchasing

[5] US Food & Drug Administration Interim Report for Duodenoscope Reprocessing Studies Conducted in Real-World Settings, December 10, 2018.

and contract affiliation. More specifically for the GI market, public demand for safe endoscopic procedures and increasing regulatory pressure may drive demand for the Company's solution.

Distribution Agreements

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 within accounts not previously targeted by Getinge 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 on August 1, 2018. In the event agreement was not reached,

On August 1, 2018, the Parties announced that they mutually decided not to renew the distribution agreements between them, and agreed: 1) to provide TSO_3 unrestricted independent commercialization of its STERIZONE® VP4 Sterilizers; 2) that the Company would purchase approximately 230 STERIZONE® VP4 Sterilizers for $33,000 per sterilizer; 3) to transfer Getinge's existing sales pipeline to TSO_3 in exchange for shared economics at the completion of sale; and 4) to 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 has substantially completed the transition on the STERIZONE® VP4 Sterilizer business from Getinge, and is actively and independently focused on selling the STERIZONE® VP4 Sterilizers in its inventory to leading healthcare facilities in the United States and Canada.

Transitioning to a Direct Sales Approach

Following termination of the Distribution Agreements, TSO_3 transitioned from an exclusive/co-commercialization distribution agreement to a direct sales approach. By the end of the year, the Company had fully built out its sales structure and hired and trained a total of 11 sales executives which are now targeting 11 territories. This highly incentivized and motivated sales team took over the prior distributor's existing opportunities, and has since validated and grown the Company's pipeline of potential commercial opportunities.

Sales Strategy

TSO_3's direct sales force is focused on accelerating market adoption of its technology. The Company ended 2018 with an installed base of 66 units (with another 24 in backlog for future delivery and 12 units that had been shipped but were not installed at that time). By leveraging its installed base, increasing market awareness and understanding of the STERIZONE® VP4 Sterilizer's unique differentiation factors and implementing strategic pricing initiatives in the fourth quarter of 2018, TSO_3 achieved the highest order rate in its recent history, having concluded purchase orders for 21 STERIZONE® VP4 Sterilizers. Adjusting for these commitments, the Company's available for sale inventory stood at 205 units at the end of 2018.

Sales Process

Medical facilities purchase new sterilization equipment when they need to replace existing systems or when they are building a few facilities. Depending on the customer, the sale process can range between less than 90 days to as much as 12-18 months (from the time an opportunity is identified and turned into a purchase order). Timing can be influenced by a number of factors, such as whether the customer is expanding, in construction or simply replacing existing functional or non-functional sterilizers. Delivery and installation subsequent to the sale can also take short or substantial time depending on customer needs.

The sales process relies on a solutions-centric approach targeting both the clinical and purchasing teams. By working with both audiences, TSO_3's sales team develops a solution that is based on performance data, assist in healthcare practice issues and helps create value for the organization.

Go-to-market Strategies

- **Direct selling to end users**

  This is the prioritized go-to-market strategy. Direct clinical sales are conducted by TSO_3's sales and marketing team who is focused on selling and providing support to end users in the central sterilization department of acute care hospitals and developing additional opportunities in the gastrointestinal reprocessing market segment.

- **Partnerships**

  In order to evaluate in-use technical and device reprocessing data the Company may enter into strategic or commercial partnerships with medical facilities. The Company currently has units installed with partner hospitals. These hospitals provide TSO_3 with references and valuable in-use data about its system.

Business Model and Pricing Strategy

TSO_3 is focused on building sustainable long-term shareholder value. Its STERIZONE® VP4 Sterilizers are capital equipment with an average product life of 10 years or more. These units use higher margin proprietary consumables and require occasional service and maintenance for systems deployed. If these systems are used three or more cycles per working day, annual recurring revenue from consumables can reach up to $20,000 to $30,000 and annual service and maintenance revenue if customers enter into service contracts, can range between $12,000 to $21,000.

As is the case with many recurring revenue business models, especially in the initial market introductory phase, average selling prices might be discounted in order to accelerate adoption. This approach is prioritized in 2018-2019 in exchange for speed to build the necessary reference installed base with leading acute and ambulatory care centers in Canada and the USA and quickly generate a reliable and valuable recurring revenue stream in the early stage of the direct commercialization strategy.

Seasonality and Early Stage Commercialization

The sale of medical devices to healthcare facilities is commonly affected by seasonal patterns, as facilities tend to increase spending on capital equipment in the fourth quarter of each year and at the end of each quarter. TSO_3 is the early phase of commercialization and its current sales efforts are focused on accelerating the introduction to market of its proprietary technology. In addition to annual and quarterly patterns, current sales patterns will also be dependent on the Company's promotions, programs and other efforts to facilitate the adoption of its technology by the market.

Intellectual Property

As of December 31, 2018, TSO_3 had 201 patents or patent applications pending, with 105 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.

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

During 2018, TSO_3 filed several additional patent applications to further strengthen its patent protection.

TSO_3's patented 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.

Highlights of 2018 – A Transition Year

Shifting Gears to a Direct Sales and Distribution Model

- On August 1, 2018 TSO_3 announced a $20.0 million debt financing with Courage Capital Management LLC to fund the Company's new commercialization strategy coincident with the mutual agreement between the Company and Getinge not to renew the Distribution Agreement between the Parties.

- On October 4, 2018, TSO_3 announced it had completed the implementation of all commercial action items necessary to shift the organization to a direct sales distribution model. The Company reported it had:
  - Repurchased 230 sterilizers from its former distribution partner;
  - Assumed full control of commercial operations and installed base;
  - Hired and trained sales executives to accelerate the sales process and grow the pipeline of opportunities;
  - Invested in sales, marketing and technical service capabilities;
  - Shifted resources from product development and assembly operations to its new dedicated sales and marketing resources.

Expanded Corporate Governance

- On April 2, 2018, TSO_3 announced the appointment of Dr. Douglas Dieter to the Company's board of directors. Dr. Dieter is a recognized authority in healthcare finance and has deep knowledge of the healthcare system, including Medicare and Medicaid payment systems.

- On May 10, 2018, TSO_3 announced the appointment of Dr. Linda Rosenstock as Chair of the Company's 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.

- On August 29, 2018, TSO_3 announced the appointment of Mr. Martin J. Madden to the Company's board of directors. Mr. Madden brings a broad background in medical device innovation and new product development as a leading industry executive.

Commercial Milestones and Growing Install Base

- On June 14, 2018, TSO_3 announced that Altru Health Systems became the inaugural US facility to offer terminal sterilization of endoscopes using TSO_3's technology.

- On October 30, 2018 TSO_3 announced that the CHU de Quebec – Université Laval acquired one STERIZONE® VP4 Sterilizer along with an option for the purchase of two additional units.

- On January 7, 2019, TSO_3 announced that it achieved a record order number of 21 units ordered in the fourth quarter of 2018. The Company ended the year with 66 STERIZONE® VP4 Sterilizer installed, 24 in backlog for future delivery and 12 that were shipped but were not installed at end user locations.

Regulatory Momentum and Emerging Market Opportunity

- On April 26, 2018, the Company announced that an independent laboratory completed studies demonstrating the efficacy of the STERIZONE® VP4 Sterilizer for inactivation of prions. Prions have 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.

- On May 9, 2018 TSO_3 announced that it had received FDA clearance of its 510(k) submission for terminal sterilization of multi-channeled flexible endoscopes. TSO_3's solution is the only terminal sterilization method cleared by the FDA for this application data supplied to support this submission was generated using the Olympus TJF-Q180V duodenoscope.

- On November 15, 2018 TSO_3 announced that the American Journal of Infection Control published TSO_3's study on terminal sterilization of duodenoscopes, conclusively demonstrating the ability of the device to terminally sterilize the most challenging locations of these complex devices.

2019 Growing Installed Base and Recurring Revenue

TSO_3's focus remains on growing its install base and placing all units in inventory by aggressively pursuing its two principal markets, primarily the CSSD market and the emerging GI market.

Focus on speed-to-market:

- Units priced to accelerate placement, build a larger reference base and grow critical mass to accelerate recurring revenue;
- Leverage the existing installed base to demonstrate real-life efficiency and efficacy data;
- Target high use / high visibility hospitals; and
- Implement programs and trials designed to gain market share such as ”pay-per-cycle” or “guaranteed savings proposals”.

The Company is also pursuing discussions with OEMs, regulators and the scientific community to address patient safety issues and advocate for more robust reprocessing sterilization methods.

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 twelve-month and three-month periods ended December 31, 2018 and to compare them with the twelve-month and three-month periods ended December 31, 2017. This information is dated March 27, 2019 and should be read in conjunction with the Annual Audited Consolidated 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 Annual Audited Consolidated 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 Annual Audited Consolidated Financial Statements, accompanying notes and MD&A have been reviewed by the Audit Committee and Risk Management 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 ability for the Company to market and sell its products;
- The success of sales and relationship with marketing partners and suppliers;
- The ability for the Company to deploy TSO_3's products to end customers;
- The ability for the Company to attract capital and other financial risks;
- Business and economic conditions;
- 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;

- Foreign currency exchange rates;
- The compatibility of medical instruments with the Company's technology;
- The ability to obtain sufficient quantities of supplies and materials when needed;
- The ability to complete research and development work.

These forward-looking statements involve risks and uncertainties relating to, among other things, limited history of commercialization, commercial operations, compatibility, biocompatibility, research and development projects, dependency on key personnel, 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, 2018, which reflect to the Company's knowledge, the material risks and uncertainties it faced as at March 27, 2018, the date of filing for the fiscal year 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 December 31 (IFRS Basis, in thousands of US dollars, except per share amounts)

	2018	2017
	$	$
Revenues	**2,532**	19,726
Cost of sales	**1,534**	12,068
Gross profit	**998**	7,658
Expenses		
Research and development	**5,547**	6,222
Selling, general and administrative	**10,348**	8,728
Financial (income) expenses	**(1,678)**	132
Total Expenses	**14,217**	15,082
Net loss before income taxes	**(13,219)**	(7,424)
Income taxes	**25**	30
Net loss and comprehensive loss	**(13,244)**	(7,454)
Weighted average number of outstanding shares (in thousands)	**93,108**	92,508
Basic and diluted net loss per share	**(0.14)**	(0.08)
Basic and diluted net comprehensive loss per share	**(0.14)**	(0.08)

Results Analysis

Below, the Company discusses the variations of certain accounts for the periods ending December 31, 2018 and 2017.

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

REVENUES

The Company records revenue from the sale of sterilizer units and associated accessories (typically upon their shipment), spare parts and servicing as well as recurring revenue from the sale of consumables ("recurring revenue").

As described in the "Commercialization Strategy" section on page 5 of the TSO_3's Annual Report, the Company amended its exclusive distribution agreement with its commercial partner Getinge Infection Control AB in January 2018 and subsequently, on August 1, 2018, the agreement was terminated and the Company launched its fully independent sales, service and marketing commercialization strategy. The Company announced on October 4th, 2018 that it had completed the necessary commercial action items to shift the organization to this direct sales model.

For fiscal 2018, revenues recorded were $2.5 million, as compared to $19.7 million in 2017. Revenues in fiscal 2018 came from the sale of sterilizers, consumables, accessories and service. The Company shipped 13 sterilizers to hospitals in the last five months of 2018 under its new direct sales commercialization strategy, as opposed to the 170 sterilizers it sold to Getinge, its only customer, in 2017. In fiscal 2018, the Company recorded revenue of $0.9 million coming from the sale of consumables as compared to $0.6 million in 2017. No license fee revenue was recorded in the fiscal year 2018, as compared to $0.9 million recorded in 2017. During the third quarter of 2018, the Company allocated the $6.0 million balance in deferred license fee associated with the Getinge Agreement against inventories.

Revenue declines were partially offset by higher recurring revenue from the sale of the Company's proprietary consumables, reflecting a growing installed base of STERIZONE® VP4 Sterilizers in medical facilities.

Prior to the termination of the Getinge Agreement on August 1, 2018, Getinge represented substantially all of the Company's source of revenue. As a result of the transition of the STERIZONE® VP4 Sterilizer business from Getinge to TSO_3, the Company is now recording revenue for sales of products and services to end users and does not expect to record significant revenue from sales to Getinge.

SUMMARY OF NET LOSS

In the fiscal year of 2018, net loss and comprehensive loss totaled $13.2 million or $0.14 per share, as compared to $7.5 million or $0.08 per share of net loss and comprehensive loss during the same period in 2017. The $5.7 million variance is explained by the decreased of $6.7 million in gross profit mainly related to the shift in commercialization strategy, associated loss of deferred license fee revenue recognition and a non-recurring non-cash raw material write-down of $0.5 million, combined with an increase of $1.6 million of sales, general and administrative expenses to support the new direct distribution model. This was mitigated by a non-cash financial gain associated with the Convertible Note and the reduction of $0.7 million in research and development expenses, or $1.1 million exluding a one time non-cash charge of $0.4 million of sterilizers under development.

During the year 2018, the Company closed a $15.0 million Convertible Note financing as part of a $20.0 million financing package. The Convertible Note contains two components: debt and an embedded derivative, the latter of which is the right to convert the Convertible Note into common shares of the Company at US$0.82 per share. In accordance with IFRS 9, the Company shall revalue the embedded derivative on a quarterly basis and record the difference in liabilities and in financial income or loss. The value of the underlying derivative, and subsequent revaluations, has no cash impact on the Company. As a result of the revaluation of the derivative in association with the Convertible Note, the Company recorded a non-cash financial gain of $2.9 million in 2018.

For the year 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	**Q4**	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Net loss	**(2,676)**	(2,104)	(3,952)	(4,512)	(1,449)	(1,771)	(2,254)	(1,980)
Financial (income) expenses	**(1,055)**	(599)	(12)	(14)	74	48	49	(39)
Amortization and depreciation	**235**	270	292	315	246	331	221	168
Write-down of tangible and intangible assets	**1,026**	-	-	-	-	-	-	-
Share-based compensation expense	**369**	688	627	371	301	632	592	609
Income taxes	**7**	11	7	-	(59)	33	29	27
Adjusted Ebitda	**(2,094)**	(1,734)	(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's reporting currency is 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 year 2018, total expenses denominated in Canadian dollars were CAD$7.9 million, as compared to CAD$16.3 million in the year 2017. The average USD/CAD foreign exchange rate in the year of 2018 was 0.7718 as compared to 0.7701 in 2017, which is comparable in CAD denominated expenses year over year upon conversion to USD. The USD/CAD foreign exchange rate in the fourth quarter of 2018 was 0.7575 as compared to 0.7867 in the fourth quarter of 2017, which is reflected in a decrease in CAD denominated expenses of 4% year over year upon conversion to USD.

In 2018, total cost of sales related expenses denominated in Canadian dollars were CAD$1.8 million, as compared to CAD$9.9 million in 2017. Similarly, total research and development expenses denominated in Canadian dollars were CAD$2.5 million, as compared to CAD$3.2 million in 2017, and total SG&A expenses denominated in Canadian dollars were CAD$3.6 million, as compared to CAD$3.2 million in 2017.

From a quarterly sequential perspective, the USD/CAD foreign exchange rate in the fourth quarter of 2018 was 0.7575 as compared to 0.7652 in the third quarter of 2018, which is reflected in a decrease in CAD denominated expenses of 1% quarter over quarter upon conversion to USD.

In the fourth quarter of 2018, total cost of sales related expenses denominated in Canadian dollars were CAD$0.5 million, as compared to CAD$2.4 million in the fourth quarter of 2017. In the same comparison periods, total research and development expenses denominated in Canadian dollars were CAD$0.6 million in the fourth quarter of 2018, as compared to CAD$1.1 million in the fourth quarter of 2017, and total SG&A expenses denominated in Canadian dollars were CAD$0.8 million in the fourth quarter of 2018, which is consistent with the fourth quarter of 2017.

Cost of sales

Cost of sales includes inventory costs and 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 fiscal year ended December 31, 2018, cost of sales amounted to $1.5 million, as compared to $12.1 million in 2017. In 2018, TSO_3 shipped 13 STERIZONE® VP4 Sterilizers to hospitals as opposed to 170 sterilizers to Getinge in 2017. Cost of sales in 2018 included a non-recurring $0.5 million raw material write-down of inventories on items used in the production of sterilizers, which the Company intends to use but only after it has sold its existing inventory of finished goods, and a $1.0 million reversal of the warranty provision accrual following the termination of the agreement with Getinge in August 2018 in relation to the repurchase of the STERIZONE® VP4 Sterilizers for which the warranty accrual was recorded in prior periods.

Gross profit was $1.0 million in 2018, as compared to $7.7 million in 2017. Gross profit in 2018 declined as a result of the reduction in unit sales, the lack of license fee revenue and the raw material write-down of inventories. This was partially offset by the $1.0 million reversal of warranty provision associated with inventory purchased from Getinge.

Research and Development

For the fiscal year ended December 31, 2018, research and development expenses were $5.5 million, as compared to $6.2 million for the same period in 2017. For the year 2018, the Company reduced by $1.1 million expenses related to salary, travelling expenses and professional fees and by $0.3 million expenses related to material purchases, equipment maintenance and building expenses to run the laboratories. This decrease offset by $0.4 million of increased share-based compensation, depreciation and reduced research and development tax credit as compared to 2017 and by a non-recurring non-cash write-down of $0.4 million on sterilizers under development that will not be commercialized in the upcoming year.

The Company reduced its research and development expenditures 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, service and administrative expenses. SG&A expenses were $10.3 million for the year 2018, as compared to $8.7 million in 2017.

During the year 2018, as compared to 2017, the Company incurred an additional $2.9 million in salary, share-based compensation, travelling, recruiting fees and professional fees relating to marketing, sales and service and by a non-recurring non-cash write-down of $0.1 million relating to unused intangible assets. This increase is offset by a decrease in general and administration expenditures during year 2018, as compared to 2017, of $1.4 million in salary, share-based compensation, travelling and recruiting fees.

Share-based compensation expense

For the year ended December 31, 2018, non-cash share-based compensation amortization amounted to $2.1 million (same amount in 2017).

As at December 31, 2018, the Company had 7.3 million stock options oustanding, as compared to 7.9 million in 2017.

These expenses are presented in the Consolidated Statements of Loss and Comprehensive Loss in the expense line items.

Financial (income) expenses

For the fiscal year ended December 31, 2018, financial income was at $1.7 million, as compared to a financial expense of $0.1 million in 2017. The Company recorded a non-cash gain of $2.9 million on the Company's Convertible Note embedded derivative offset by $1.2 million of accrued interest expense related to the $20.0 million debt financing obtained on August 1, 2018.

Financial Position Analysis

(IFRS Basis, in thousands of US dollars)

	2018	2017
	$	$
Cash, cash equivalents and investments	**12,961**	14,808
Accounts receivable and current income tax assets	**1,607**	651
Inventories	**3,534**	2,040
Property, plant and equipment	**2,039**	3,184
Intangibles assets	**1,781**	1,886
Accounts payable, accrued liabilities, current and deferred income tax liabilities	**1,909**	2,515
Warranty provision	**273**	1,263
Deferred revenues (short and long term)	**103**	6,050
Debt and embedded derivative	**18,030**	-
Equity	**1,868**	12,891

Liquid Assets

As at December 31, 2018, cash, cash equivalents and investments amounted to $13.0 million, as compared to $14.8 million as at December 31, 2017.

During 2018, the Company used approximately $11.8 million in cash from operations, excluding non-cash working capital, as compared to $4.5 million in 2017. This increased predominantly in 2018 relative to last year due to a decrease in sales of sterilizers to Getinge. In 2018, the Company consumed $9.7 million from changes in non-cash working capital, as compared to $1.1 million generated last year. Working capital cash consumption came predominantly from the purchase of $7.9 million of inventory as a result of the termination of the Getinge Agreement and the increase in accounts receivables relating to sales.

Accounts Receivable and current income tax assets

As at December 31, 2018, accounts receivable and current income tax assets amounted to $1.6 million, as compared to $0.7 million as at December 31, 2017. As at December 31, 2018 receivables were related to customer receivables, R&D and sales tax credits.

Inventories

As at December 31, 2018, inventories amounted to $3.5 million, as compared to $2.0 million as at December 31, 2017.

	2018 **$**	2017 $
Raw Materials	**925**	1,137
Work in Progress	**74**	242
Finished Goods	**2,535**	661
	3,534	2,040

In 2018, the Company decreased its raw material by $0.2 million and grew its finished goods by $1.9 million. During the year, the Company bought from Getinge $0.3 million of accessories and 230 STERIZONE® VP4 Sterilizers for $7.6 million for a total repurchase amount of $7.9 million. The Company also applied the remaining $6.0 million balance of deferred license fee associated with the former Getinge distribution agreement against the finished goods the Company repurchased from Getinge. Additionally, the Company wrote-down $0.5 million of raw material used for the production of sterilizers. While the Company anticipates using this raw material inventory in the future, it does not anticipate doing so in 2019 as the Company will focus on selling the finished sterilizers it had on hand at December 31, 2018.

Property, Plant and Equipment

Property, plant and equipment, net of depreciation, amounted to $2.0 million as at December 31, 2018, which is $1.1 million lower than at December 31, 2017. During 2018, TSO_3 acquired a total of $0.1 million in property, plant and equipment and have applied a non-recurring write-down of $0.4 million on sterilizers under development that will not be commercialized in the upcoming year. Depreciation was $0.9 million during the year 2018.

Intangible Assets

Intangible assets, net of amortization amounted to $1.8 million at the end of 2018 which is $0.1 million lower compared to December 31, 2017. In 2018, the Company invested $0.2 million in patents which was offset by amortization over the year and a write-down of $0.1 million on unused intangible assets.

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

As at December 31, 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 purchasing as the Company is focused on selling its existing inventory. Trade accounts payable amounted to $0.7 million as at December 31, 2018, compared to $1.3 million as at December 31, 2017.

Deferred Revenues

As at December 31, 2017, deferred revenues represented almost exclusively the unamortized part of the deferred license revenue received under the Getinge Agreement. As at December 31, 2018, following the termination agreement with Getinge, the Company applied the $6.0 million balance of deferred license fee associated with the Getinge Agreement against inventories repurchased on August 1, 2018.

Debt and embedded derivative

As at December 31, 2018, debt and embedded derivative amounted to $18.0 million related to a $20.0 million financing entered into on August 1, 2018. The Company shall revalue the embedded derivative on a quarterly basis and record the difference in liabilities and in financial income or loss. The value of the underlying derivative, and subsequent revaluations, have no cash impact on the Company. As a result of the revaluation of the derivative in association with the Convertible Note, the Company recorded a non-cash financial gain of $2.9 million in 2018. The value of the embedded derivative at the end of 2018 was $1.3 million.

Shareholders' Equity

As at December 31, 2018, Shareholders' Equity amounted to $2.9 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 year of 2018, partially offset by $2.1 million in share-based compensation recognized during the same period.

As at December 31, 2018, the number of outstanding shares was 93,465,238 (92,854,304 as at December 31, 2017). As of March 27, 2019, the number of outstanding shares is 93,465,238.

Cash Flows Analysis

(IFRS Basis, in thousands of US dollars)

	2018 **$**	2017 $
Operating Activities	**(21,388)**	(3,130)
Investing Activities	**6,421**	7,936
Financing Activities	**19,884**	540

Operating Activities

In 2018, the Company used approximately $11.8 million in cash for operations and excluding non-cash working capital, as compared to $4.5 million in 2017. Cash used from operations increased predominantly in 2018 relative to last year due to the decrease in sales of sterilizers. In 2018, the Company consumed $9.7 million from changes in non-cash working capital, as compared to $1.1 million generated in 2017. Working capital cash consumption in 2018 came predominantly from the purchase of $7.9 million of inventory and the increase in accounts receivables.

Investing Activities

For the fiscal year ended December 31, 2018, investing activities generated $6.4 million, as compared to $7.9 million generated in 2017. In 2018, the Company generated $6.7 million from the net disposal of short term investments and used $0.3 million to purchase property plant and equipment and intangible assets in 2018, as compared to $9.7 million and $1.8 million respectively in 2017. In 2017, the Company invested in medical devices, sterilizers for use in its laboratories, equipment and tools.

Financing Activities

For the fiscal year ended December 31, 2018, financing activities generated $19.9 million as compared to $0.5 million in 2017. The amount generated in 2018 is related to a net $19.7 million financing provided in two separate but concurrent transactions in the form of a $15.0 million first lien convertible note and a $5.0 million first lien term loan. In addition, amount generated from stock options exercised was $0.2 million in 2018 and $0.5 million in 2017.

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
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenues	**1,122**	782	373	255	5,780	5,105	4,630	4,211
Net loss	**(2,676)**	(2,104)	(3,952)	(4,512)	(1,449)	(1,771)	(2,254)	(1,980)
Net loss per Share (basic, in $)	**(0.03)**	(0.02)	(0.04)	(0.05)	(0.02)	(0.02)	(0.02)	(0.02)

Fourth Quarter Analysis

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

Three-month period ended December 31, 2018, compared to the three-month period ended December 31, 2017:

	Fourth Quarter 2018 $	Fourth Quarter 2017 $
Revenues	**1,122**	5,780
Cost of sales	**1,083**	3,455
Gross profit	**39**	2,325
Expenses		
Research and development	**1,095**	1,766
Selling, general and administrative	**2,667**	1,993
Financial (income) expenses	**(1,054)**	74
Total Expenses	**2,708**	3,833
Net loss before income taxes	**(2,669)**	(1,508)
Income taxes	**7**	(59)
Net loss and comprehensive loss	**(2,676)**	(1,449)
Weighted average number of outstanding shares (in thousands)	**93,108**	92,508
Basic and diluted net loss per share	**(0.03)**	(0.02)
Basic and diluted net comprehensive loss per share	**(0.03)**	(0.02)

REVENUES

For the three-month period ended December 31, 2018, total revenues amounted to $1.1 million, as compared to $5.8 million for the same period in 2017. During the fourth quarter of 2018, the Company shipped nine STERIZONE® VP4 Sterilizers to end customers under its new direct sales commercialization strategy, as opposed to 50 sterilizers shipped to Getinge in the fourth quarter of 2017. The fourth quarter of 2017 represents the last quarter in which the Company shipped sterlizers to Getinge. Lower revenue from lower shipments of units was partially offset by higher recurring revenue from the sale of the Company's proprietary consumables, reflecting a growing installed base

of STERIZONE® VP4 Sterilizers in medical facilities as well as higher fourth quarter 2018 direct to consumer selling prices.

In the fourth quarter of 2018, the Company recorded recurring revenue of $0.4 million from the sale of consumables, compared to $0.2 million in the equivalent quarter of 2017. No license fee revenue was recorded in the fourth quarter of 2018, compared with $0.3 million in the equivalent quarter of 2017.

SUMMARY OF NET LOSS

For the three-month period ended December 31, 2018, the Company recorded a net loss of $2.7 million, or $0.03 per share, as compared to a net loss of $1.4 million, or $0.02 per share for the same period in 2017. The $1.3 million variance is explained by the decrease of $2.3 million in gross profit mainly related to the shift in commercialization strategy, associated loss of deferred license fee revenue recognition, a non-recurring write-down of raw material inventories of $0.5 million on items used in the production of sterilizers and from an increase of $0.7 million in sales, general and administrative expenses to support the new direct distribution model. This was mitigated by a non-cash financial gain associated with the Convertible Note and a reduction of $0.7 million in research and development expenses.

A $1.8 million non-cash financial gain was recorded from the revaluation of the derivative in association with the Convertible Note in the fourth quarter of 2018.

EXPENSES

Cost of sales

For the three-month period ended December 31, 2018, cost of sales amounted to $1.1 million, as compared to $3.5 million for the same period in 2017. Gross profit was $0.04 million, in the fourth quarter of 2018, as compared to $2.3 million in 2017. Gross profit in 2018 declined as the Company shipped nine STERIZONE® VP4 Sterilizers in the fourth quarter of 2018, did not recognize licencing fee revenue and recorded a non-recurring write-down $0.5 million of raw material inventories on items used for production of sterilizers. This compares to shipments of 50 sterlizers shipped to Getinge in the fourth quarter of 2017.

Research and development

For the three month-period ended December 31, 2018, research and development expenses amounted to $1.1 million, as compared to $1.8 million for the same period in 2017. For the three-month period ended December 31, 2018, the Company reduced by $0.9 million expenses related to salary, share-based compensation, travelling expenses and professional fees and by $0.2 million expenses related to material purchases, equipment maintenance, building expenses and depreciation to run the laboratories offset by a non-recurring write-down of $0.4 million on sterilizers developed internally that will not be commercialized in the upcoming year.

Selling, General and Administration (SG&A)

Selling, general and administrative (SG&A) include marketing, sales and service and administrative expenses. SG&A expenses were $2.7 million for the fourth quarter ended December 31, 2018, as compared to $2.0 million for the the same period in 2017. During the fourth quarter of 2018, as compared to the same period in 2017, the Company incurred an additional $1.2 million in salary, share-based compensation, commissions, recruiting fees and professional fees relating to marketing, sales and service. This increase is offset by a decrease in general and administration expenditures during the fourth quarter of 2018, as compared to 2017, of $0.6 million in salary, share-based

compensation, travelling and recruiting fees and by a non-recurring write-down of $0.1 million on intangible assets not in use.

Cash Flows Analysis

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

	Fourth Quarter	
	2018	2017
	$	$
Operating Activities	**(3,019)**	(674)
Investing Activities	**(106)**	1,074
Financing Activities	**4**	-

Operating Activities

For the three-month period ended December 31, 2018, the Company used approximately $2.2 million in cash for operations and excluding non-cash working capital, as compared to $1.0 million in the same period of 2017. Cash used from operations increased predominantly in the fourth quarter of 2018 relative to the same period last year due to the decrease in sales of sterilizers. In the fourth quarter of 2018, the Company sold nine sterilizers to end customers as compared to 50 sold to Getinge in the fourth quarter of 2017. In the fourth quarter of 2018, the Company consumed $0.9 million from changes in non-cash working capital, as compared to $0.3 million generated last year from the early receipt of accounts receivables.

Investing Activities

For the three-month period ended December 31, 2018, investing activities consumed $0.1 million, as compared to $1.1 million generated in 2017, a decrease resulting from the purchase of $0.1 million in property, plant and equipment and intangible assets in the fourth quarter of 2018, as compared to $1.6 million of net disposal in investments and the purchase of $0.6 million in property plant and equipment and intangible assets in 2017.

Financing Activities

Cash generated from financing activities were immaterial in both fourth quarters of 2018 and 2017.

Segmented Information

The Company has one operating segment.

	Fourth quarter		Twelve months	
Revenues	**2018**	2017	**2018**	2017
Canada and Worldwide	**264**	154	**536**	424
United States	**858**	5,626	**1,996**	19,362
	1,122	5,780	**2,532**	19,786

	December 31, 2018			December 31, 2017		
	Inventories	**Property, Plant and Equipment**	**Intangible Assets**	Inventories	Property, Plant and Equipment	Intangible Assets
Canada and Worldwide	**1,382**	**813**	**1,772**	1,616	1,306	1,870
United States	**2,152**	**1,226**	**9**	424	1,878	16
	3,534	**2,039**	**1,781**	2,040	3,184	1,886

For the year 2018, revenue from Getinge represented 26% of the Company's total revenues in conjunction with the Getinge Agreement (98% in 2017).

Contractual Commitments

As at December 31, 2018, the contractual commitments in the fiscal years to come are as follows:

In thousands of US$	2019 $	2020 $	2021 $	2022 $	2023 $
Operating leases and service contracts	257	140	7	6	6

Operating leases relate to leases of premises with lease terms of one to five years. The Company does not have an option to purchase the leased premises at the expiry of the lease periods. For the year ended December 31, 2018, lease expenses were $0.2 million ($0.3 million for the year ended December 31, 2017).

Off-Balance Sheet Arrangement

The Company made no off-balance sheet arrangement during the fourth 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 December 31, 2018, $25.7 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).

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 debt and 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). 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, 2018 for a detailed presentation of accounting policies, critical accounting judgments, key source of estimation uncertainty and future accounting changes.

Risk Factors

The Company has identified certain risks and uncertainties that are difficult to predict and may have a material adverse effect on its business, results of operations, or financial condition. In any such case, the market price of its common shares could decline, and investors may lose all or part of their investment. Only potential investors who are experienced in high risk investments and who can afford to lose their entire investment should consider an investment in the Company.

The following list of risk factors is not exhaustive. Investors should carefully consider these and other risks, one or all of which may be material, before purchasing securities of the Company. The Company will, on occasion, make forward looking statements about its expectations, its business and industry, and operations. These forward looking statements are made at a point in time, based on certain assumptions. They are subject to change without notice as a result of the risks described herein and other risks. Investors or potential investors in the Company should not rely on forward-looking statements or the Company's historical operating performance as a prediction of actual results, and the Company undertakes no obligation to update forward looking information. In addition, the Company operates in a rapidly changing business, economic and regulated environment, and new potentially material risk factors emerge from time to time.

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. The medical capital equipment industry is characterised with a very long sales cycle. 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 $20.0 million secured debt financings restrict the Company's ability to sell its assets, incur secured or certain other indebtedness and other terms and conditions. These terms and conditions 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.

Under the terms and conditions of the agreements on the debt with its lender, the Company is subject to certain covenants, including a minimum liquidity covenant of $5.0 million. As at December 31, 2018, these covenants were met by the Company.

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.

Need for Additional Capital and Liquidity

TSO_3 may decide or need to raise funds in order to fund operations, improve its cash reserves, undertake strategic initiatives or acquisitions or for other corporate purposes. TSO_3 anticipates that it will continue to have negative cash flow until such time, if at all, that profitable commercialization of its STERIZONE® VP4 Sterilizers is achieved. Such funds may not be available in a timely manner, under commercially favourable terms or at all.

Future financings could represent significant dilution to current shareholders. If convertible securities are included in future financings, such convertible securities could be dilutive to shareholders and, along with various forms of debt, be senior in security to common shareholders, and the sale of the underlying shares may have a depressive effect on the future price of the common shares of the Company. Debt financing could also incorporate material debt service payments or other terms which represent risk to common shareholders.

Failure to obtain additional funds on favourable terms or at all, whether from operations or additional debt or equity financings, could require the Company to delay or abandon some or all of its anticipated expenditures or to modify its business strategy and could have a material adverse effect on it, its business prospects, results from operations and financial condition, including on its ability to sell and market its products, complete certain internal development and commercialization projects or complete its submissions with regulatory agencies.

Management of Growth

The Company's lack of history in direct sale of its products makes it more difficult for the Company to predict sales patterns cycles and seasonality, average selling prices, installation costs and timelines, warranty exposures, customer adoption and usage, incentive requirements, and competitive response, among other considerations. While the Company is aware of and has addressed or is addressing many of these challenges, most of these challenges and risks remain and are outside of its control. There is no guarantee that the Company will successfully address and forecast these and other challenges in the future. Failure to do so could negatively impact the Company's ability to produce and sell its products and therefore could have a material adverse impact its future financial and operating results.

Customer Concentration

Since the Company's products are sold to hospitals and other healthcare providers, public budgetary constraints may significantly impact the ability of hospitals and other custumers supported by such systems to purchase its products. The purchasing and implementation volumes and timelines of such end customers are also typically hard to predict. The Company may experience significant fluctuations as a result of volatility of end customer demand for its sterilizers and the consumables associated with them.

If government or other third-party payors implement measures to regulate pricing or contain costs or if the costs increase more rapidly than reimbursement level or permissible pricing increases or TSO_3 does not satisfy the standards or requirements for reimbursement, its revenues or profitability may suffer and its business, performance, value, prospects, financial condition or results of operations may be adversely affected.

Regulatory Approvals

Sterilizers and other medical devices are subject to regulatory clearances within individual markets. As such, they are evaluated for compliance with established consensus standards. When a new technology is involved, in order to get US clearance through the 510(k) process, a manufacturer must identify an existing "predicate" device from which to compare the new technology. The Company has effectively demonstrated in the past that such "predicate" devices were equivalent with its first generation sterilizer and with its most recent technology, the STERIZONE® VP4 Sterilizer.

The Company has obtained clearance in Canada in December 2009 and in the European Community in March 2010 for its STERIZONE® 125L+ Sterilizer. While these are important markets and these clearances can be used in other countries, clearance in the US is the most important clearance to obtain and maintain due to the size of that market and its importance in terms of practice. The Company obtained clearance in the US for the STERIZONE® VP4 Sterilizer in December 2014. In October 2015, the TSO_3 received clearance from Health Canada (Canadian equivalent of the United States FDA) to sell the STERIZONE® VP4 Sterilizer with extended claims associated with 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 relating to certain multi-channel flexible endoscopes of up to 3.5 meters in length and four or fewer channels. Maintenance of these clearances is critical for the Company, but as laws and regulation change, such maintenance may depend on parameters outside the Company's control. On May 9, 2018, the Company announced that it 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 Company's business and financial condition could be adversely affected in the event that (1) a regulatory authority revokes any regulatory clearances granted in respect of the Company's products; (2) the Company fails to obtain regulatory clearance for modifications to existing products, for new products, or for the marketing of new uses for existing products of the Company; (3) regulatory authorities revise existing policies or regulations, or adopt additional regulations and the Company is unable to comply with such policies and regulations; or (4) the Company's products are subject to a recall. Any revocation of regulatory clearance, recall or other change required could have a material adverse impact on its operating results, and could impact its reputation amoung users and healthcare professionals who are promoting the Company's product.

Numerous statutes and regulations govern the manufacture and sale of sterilizers for medical use in Canada, the United States and other countries where the Company markets or intends to market its products. Such laws and regulations govern, among other things, the approval of manufacturing facilities, testing procedures and controlled research and the advertising of products. Failure to comply with statutes and regulations could result in warning letters, fines and other civil penalties, unanticipated expenditures, withdrawal of regulatory approval, delays in approving or refusing to approve modifications to existing products or new products, product recall or seizure, interruption of production, operating restrictions, injunctions or criminal sanctions.

The Company and its contract manufacturers and suppliers are also subject to numerous provincial and local laws relating to such matters as safe working conditions, manufacturing practices, environmental protection, fire hazard control and disposal of hazardous or potentially hazardous substances. The Company and its contract manufacturers and suppliers may be required to incur significant costs to comply with such laws and regulations in the future, and such laws and regulations may have an adverse effect on the Company's business. Failure of the Company or its contract manufacturers and suppliers to comply with current or changes in existing regulatory requirements could materially harm the Company's business. Furthermore, there can be no assurance that the Company's contract manufacturers and suppliers will continue to comply with regulatory requirements. In such circumstances, the Company's business or financial condition may be adversely affected.

Healthcare Legislation

The Company operates in a highly-regulated industry and new laws, judicial decisions, or new interpretations of existing laws, or decisions, related to healthcare could negatively impact its business, operations and financial condition. Governments of local and foreign jurisdictions have in the past considered, are currently considering and may in the future consider, healthcare policies and proposals intended to curb rising healthcare costs. Future significant changes in the healthcare systems in Canada, Europe, the United States or elsewhere in the world, and current uncertainty about whether and how changes may be implemented, could have a negative impact on the demand for the products of the Company. It is not possible to predict whether other healthcare legislation or

regulations affecting the Company's business may be proposed or enacted in the future; what effect any legislation or regulation would have on that business; or the effect ongoing uncertainty about these matters will have on the purchasing decisions by the Company's customers. Changes to regulations, standards and guidelines and the establishment of new regulatory authorities may affect the Company's existing or future regulatory clearances.

Compatibility with Medical Instruments

All sterilization processes can affect medical instruments or alter their key properties over a period of time. Taking into consideration the nature of the devices to be sterilized and the oxidative effects on devices in contact with hydrogen peroxide and ozone, TSO_3 seeks to expose instruments to a gentle cycle to reduce to a minimum the frequency and duration that the devices are exposed to hydrogen peroxide and ozone. Nevertheless, oxidation can produce several effects, depending on the material. In order to fully establish the true commercial value of its sterilization process, the Company must continue to demonstrate the compatibility of its technology with a wide range of medical instruments. Even though the tests and studies undertaken to date by TSO_3 have shown that its STERIZONE® Sterilization Process is compatible with the majority of medical instruments currently used in the hospital environment, there is no guarantee that the Company will achieve compatibility with all medical devices relevant to end customers. Additionally, OEMs may be slow to, or may never, establish compatibility with the Company's technologies, which could have a material adverse impact on its ability to sell to to end customers and its existing or anticipated operating results. The Company must maintain and extend ongoing studies in this respect.

Intellectual Property

The Company's success depends, in part, on the Company's ability to obtain patents or rights thereto, protect trade secrets, and operate without violating the exclusive rights of third parties.

Although the Company already owns certain pending applications or issued patents, there is no guarantee that such patents are valid, that the pending applications will be allowed, or that the Company will develop other patentable technologies in the future. Moreover, there can be no assurance that a patent granted to the Company or in respect of which the Company holds a license will make the related product more competitive, that third parties will not contest the protection granted by the patent, or that the patents of third parties will not be detrimental to the Company's commercial activities.

In order to protect or enforce the intellectual property rights owned, used or commercialized by the Company, the Company may have to initiate legal proceedings against third parties. The Company may also have to defend claims brought against it or any purchaser or user of its products asserting that such product or process infringes intellectual property rights of third parties. Legal proceedings relating to intellectual property typically are expensive, take significant time and divert management's attention from other business matters. The cost of such litigation could adversely affect the business of the Company. Further, should the Company not prevail in an infringement lawsuit brought against it, the Company may have to pay substantial damages, and could be required to stop the infringing activity or obtain a license to use the patented technology. Such royalty or licensing agreements, if required, may not be available on acceptable terms, if at all. In the event a claim is successful against the Company and the Company cannot obtain a license to the relevant technology on acceptable terms, license a substitute technology or redesign potential products to avoid infringement, the business, financial condition and operating results of the Company could be materially adversely affected. Loss of patent protection could lead to new competition for the Company's current and future products, which could materially and adversely affect the financial prospects for the Company's products.

There is no guarantee that other companies will not independently develop products similar to those of the Company, that they will not imitate the Company's products, or that the Company's competitors will not develop products designed to circumvent the Company's exclusive proprietary rights. The Company may also need to obtain rights for other technologies belonging to third parties, but there is

no guarantee that such technologies will be offered to the Company on acceptable terms. If the Company does not obtain such licenses, the commercialization of one or more of its products could be delayed. In addition, the Company could incur considerable costs to prosecute or defend proceedings in which the Company asserts its proprietary rights against third parties.

Technologies

Information technology is an integral part of the Company's business and operations systems. The increasing use and scope of technologies in the Company's activities raise the level of certain risks, such as cyberthreats which are more frequent and more sophisticated as well as incidence of IT system failure and instability which could present business disruption, unauthorized appropriation of confidential information and potential liability.

Dependency on Key Personnel

TSO_3 believes that its success will continue to depend on its ability to attract and retain qualified managers and other key personnel, in particular its executive officers and key management, scientific, technical and sales personnel. The loss of the services of the Company's key personnel could have a material adverse effect on the business and results of operations of the Company. The Company does not maintain key person life insurance policies on any of its officers or employees. The competition for qualified employees is intense. The investment required to attract and retain key personnel, including the provision of compensation packages that are competitive, could have an impact on the profitability of the business of the Company. Compensation and benefit packages provided by the Company may not be viewed as competitive and the Company may have to increase salaries and benefits in an effort to retain key employees; the failure to do so could adversely affect the Company's ability to attract or retain key employees.

Competition Risks

The Company's products face intense competition from competitors, such as Steris Corporation or Johnson & Johnson and others, that may have greater financial, market share, sales, marketing and other resources than TSO_3. TSO_3's competitors and potential competitors may succeed in developing products and processes that are more effective and less expensive to use than any products or processes the Company may develop or license, or that may render its products or processes obsolete. Additionally, these competitors have the financial resources to compete on price, and could cause the Company to reduce the price at which it sells the products.

Product Liability Issues

In the health sector, lawsuits, often claiming substantial damages, are becoming increasingly common. In particular in the United States, lawsuits are filed by patients, employees or beneficiaries against healthcare providers, as well as authorities operating and managing hospitals in the private and public sectors. During these proceedings, claimants could allege and blame the non-sterility of certain instruments or defective functioning of products sold, installed or derived from TSO_3 technology. The Company maintains insurance to defend against such claims, but there is no assurance that such insurance provides sufficient limits or has the breadth to cover some or all such potential claims.

Challenging Global Political and Economic Conditions

The general economic and business conditions around the world affect the Company's business prospects and the demand for its products in Canada, the United States, Europe and elsewhere in the world. Such conditions include short and long-term interest rates, inflation, fluctuations in international trade agreements or laws, fluctuations in securities prices and capital markets, exchange rates, debt crisis periodically affecting certain countries, volatility in the financial markets throughout the world, the tightening of liquidity in selected financial markets, and the strength of the regional and international economies.

All of these factors affect the business and economic conditions in a given geographic region and, consequently, affect the demand for the products developed or being developed by the Company. Currency rate movements and trade relationships in the United States and other countries where the Company seeks to market or distribute its products may significantly impact the Company's business prospects and future earnings. The monetary policies of the Bank of Canada, the US Federal Reserve and the European monetary authorities as well as other interventionist measures in capital markets by public organizations are impacting economic conditions and therefore have consequences on the Company's business prospects.

The Company has no control over changes in inflation and interest rates, foreign currency exchange rates and controls or other economic factors affecting its business or the possibility of political unrest, legal and regulatory changes in jurisdictions in which the Company operates or intends to market its products.

Credit and liquidity problems may make it difficult for some businesses to access credit markets and obtain financing and may cause some businesses slowdowns and liquidity needs. The Company's exposure to bad debt losses could increase if customers are unable to pay for products previously ordered and delivered. Global economic conditions may have adverse effects on the Company's business. The Company's global market is made of governmental entities or other entities that rely on government healthcare systems or government funding. If government funding for healthcare becomes limited, TSO_3's customers may be unable to pay their obligations on a timely basis or to make payment in full and it may become necessary to increase reserves.

International Activities

The Company conducts sales and distribution operations on a worldwide basis and is subject to a variety of risks associated with doing business outside Canada. The Company has international operations, including operations in the United States. Worldwide financial and economic cycles or conditions are uncertain; and recovery from a business downturn or recession could be very slow and have significant impact on the Company's business.

TSO_3 is subject to a number of risks and complications associated with international operations including risks associated with foreign exchange rate fluctuations, collecting receivables through some foreign legal systems; tax laws that restrict the Company's ability to use tax credits, transfer pricing restrictions; general economic and political conditions in countries where the Company operates or where end users of the products are located and difficulties in enforcing intellectual property in some countries.

The Company's expansion into foreign countries exposes the Company to unfamiliar regulations and may expose the Company to new obstacles to growth. Foreign operations carry special risks. TSO_3 business in the countries in which it currently operates and those in which it may operate in the future could be limited or disrupted by:

- Exchange rate fluctuations;
- Government controls;
- Import and export license requirements;
- Political or economic instability;
- Trade restrictions;
- Changes in tariffs and taxes;
- The Company's unfamiliarity with local laws, regulations, practices, and customs;
- Restrictions on repatriating foreign profits back to Canada or movement of funds to other countries;
- Difficulties in staffing and managing international operations.

Foreign governments and agencies often establish permit and regulatory standards different from those in Canada. If the Company cannot obtain foreign regulatory approvals, or if it cannot obtain them when or on terms TSO_3 expects, its growth and profitability from international operations could be limited. Fluctuations in currency exchange could have similar effects.

Foreign Currency Exchange Rates

The Company will derive a large portion of its revenues from international sales, with the vast majority of its sales expected to be in US dollars, while the Company's primary operating locations are in Canada, and the Company incurs operating expenses in Canadian dollars. As a result, changes in foreign currency exchange rates could significantly affect the business, financial condition and results of operations of the Company.

The Company's exposure to foreign-exchange rate changes includes, but is not limited to the following:

- Certain long-term contracts with suppliers or customers may experience significant fluctuations in foreign exchange rates over several years thereby impacting cash flows and results of operations of the Company; and
- Certain contracts may involve foreign exchange risk when costs are incurred in a different currency than revenue.

Suppliers

If TSO_3's suppliers are not able to make parts available or if there is an increase of cost of raw material, it might increase the Company production costs or limit its production capabilities. The availability and prices of raw materials are subject to volatility and are influenced by local and worldwide economic conditions, currency exchange rates, anticipated or perceived shortages, and other factors. Increases in prices or decreases in availability of raw materials might impact the Company procurement or increase its production costs. Unavailability or short supply of certains products may impact the business and its performance. These risks would be exacerbated in the event TSO_3's growth rate continues.

The Company relies on a limited number of third parties for some of its activities and device components in order to benefit from economies of scale, speed or specific expertise. In particular, the Company's manufacturing supply chain includes a number of sole-sourced component suppliers for its sterilizers and consumables. Failure by a third party to meet its service or supply commitments in a speed or quality needed by the Company, wrongdoing or the management of confidential information could result in a material adverse impact on the Company's operations and could include additional costs associated with cost of corrective actions, lost of business opportunities or litigation.

Expansion Risk

The Company is regularly presented with and considers acquisitions of third party organizations, products or technologies in the ordinary course of its business. Consideration for such acquisitions could be in the form of any or a combination of cash, stock, assumed liabilities or other consideration. Such consideration may materially alter the Company's liquidity position any and/or dilute current shareholders. There can be no assurance that the Company will be able to identify, acquire or profitably manage additional businesses, or successfully integrate any acquired business, products, or technologies into the business without substantial expenses, delays or other operational or financial difficulties. There can be no assurance that acquired businesses, products or technologies, if any, will achieve anticipated revenues and income.

Hazards and Risks

The Company's operations, and those of its suppliers, are subject to a variety of business continuity hazards and risks. Business continuity hazards and other risks include, but is not limited to fires, earthquakes and flood; mechanical failures; unscheduled downtime; labor difficulties; delays in obtaining required licenses and inability to hire or retain key management or employees. The occurrence of any of these events might disrupt or shut down operations, or impact the production or profitability as a whole. Certain casualties also might cause personal injury, loss of life or severe damage to property and equipment, and result in liability claims against the Company. Even if the Company maintains property and casualty insurance in the amounts that the Company believes are customary for its industries, the Company insurance coverages have limits and may not fully insured against all potential hazards and risks incident.

Financial Instruments

The Company's risk exposure includes the risk incurred in connection with its investments in financial instruments, namely cash, cash equivalents and short-term investments. In order to manage the risk entailed by these financial instruments, controls have been implemented and, in particular, an Investment Policy was adopted and implemented. The Company considers that the return on short-term investments is secondary to risk minimization and primarily aims to optimize cash flows from a maturity perspective. With respect to investments, the main risk exposures are as follows:

Market Risk

Market risk is the risk that the value of a financial instrument will fluctuate as a result of changes in the parameters underlying its measurement, particularly interest rates and exchange rates.

Liquidity Risk

Liquidity risk refers to the possibility of the Company not being able to meet its financial obligations when they become due. The Company has contractual obligations, fiscal obligations as well as financial liabilities and is therefore exposed to liquidity risk. Such risk can result from a lack of liquidity.

The Company manages this risk by maintaining sufficient liquidity available on demand to meet current and future financial obligations. Managing liquidity requires constant monitoring of projected cash inflows and outflows using forecasts of the Company's consolidated financial position to ensure an adequate and effective use of cash resources.

As at December 31, 2018, the Company is subject to certain convenant, including a minimum liquidity convenant of $5.0 million. The terms and conditions related to this term loan is described in Note 14.

The following tables present a maturity analysis, up to the contractual due dates, of the Company's financial liabilities according to projected contractual cash flows. All contractual amounts denominated in foreign currencies are converted into US dollars using the exchange rate in effect on the reporting date, unless otherwise indicated.

		As at December 31, 2018				
	Carrying Value $	0 to 12 months $	13 to 36 months $	36 to 60 months $	Thereafter $	Total $
Accounts payable and accrued liabilities	1,858	1,858	-	-	-	1,858
Warranty provision	273	273	-	-	-	273
Debt [1)]	16,711	-	-	20,000	-	20,000
Interest payment [2)]	-	-	-	10,491	-	10,491
	18,842	2,131	-	30,491	-	32,622

[1)] The contractual cash flows include the conversion rights recorded as the embedded derivatives.
[2)] Payments of contractual interest.

Interest Rate Risk

Interest rate risk exists when interest rate fluctuations modify the cash flows of the Company's investments, including the price at which an investment could be sold.

As December 31, 2017, if interest rates on that date had been 0.5% lower, and all other variables held constant, the consolidated net loss and comprehensive loss for the period would have been $0.03 million lower, arising mainly as a result of an increase in the fair value of fixed rate financial assets classified at fair value through profit or loss. If the interest rates on that date had been 0.5% higher, all other variables being held constant, the consolidated net loss and comprehensive loss for the period would have been $0.03 million higher, arising mainly as a result of a decrease in the fair value of fixed rate financial assets classified at fair value through profit or loss. The net loss and comprehensive loss therefore have substantially the same sensitivity to interest rate increases and interest rate decreases. The Company has no investments as at December 31, 2018.

Credit Risk

The use of financial instruments can create a credit risk entailing a risk of financial loss resulting from counterparty's inability or refusal to fully meet its contractual obligations. The Company's maximum exposure to credit risk is equal to the amounts recognized as receivables from clients, cash and cash equivalents and short-term investments.

During 2016 the Company entered into a receivables factoring program with Getinge and one of its partner banking institutions. This program allowed the Company to factor all outstanding receivables that Getinge posts to the program at relatively low cost, and, when doing so, collect cash earlier and reduce the Company's credit exposure to Getinge and the credit risk related to Getinge receivables. This program was used until August 1, 2018.

The Investment Policy established by the Company addresses management of credit risk exposures and permits investments in securities or instruments issued by, or guaranteed by, the Canadian federal or provincial governments, crown corporations as well as certain municipalities and financial institutions, provided that the issuer or guarantor benefits from a credit rating not less than A- on the rating scale of Standard and Poor's or the equivalent for other credit rating agencies. This policy sets limits to the size of exposures.

As at December 31, 2017, the Company's short-term investments were rated by at least two recognized agencies and were within the credit ratings required by the Company's Investment Policy. The Company has no investments as at December 31, 2018.

Concentration Risk

Concentration risk exists when investments are made with multiple entities that share similar characteristics or when a large investment is made with a single entity.

As at December 31, 2018 and 2017, there was no single investment that exceeded the limit required under the Company's Investment Policy.

Currency Risk

The risk related to the exchange rate on financial instruments exists when monetary assets or liabilities are denominated in foreign currencies.

As at December 31, 2018, if the US dollar had weakened 10 percent against the Canadian dollar with all other variables held constant, the net loss and comprehensive loss for the period ended December 31, 2018 would have been $0.01 million lower ($0.4 million for the year ended December 31, 2017). Conversely, if the US dollar had strengthened 10 percent against the Canadian dollar with all other variables held constant, the net loss and comprehensive loss for the period ended December 31, 2018 would have been $0.01 million higher ($0.4 million for the year ended December 31, 2017).

Fair Value

The fair value of a financial instrument is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

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

Loss of Entire Investment

An investment in the shares of the Company is highly speculative and may result in the loss of an investor's entire investment. Only potential investors who are experienced in high risk investments and who can afford to lose their entire investment should consider an investment in the Company.

Volatility of Share Price

Market prices for securities in general tend to fluctuate. In addition to general securities market conditions, factors such as the announcement (to the public, at science conferences or otherwise) of scientific or technologic innovations, new products, patents, the obtaining of exclusive rights by the Company or other companies, a change in regulations, publications, quarterly financial results, public concerns regarding the Company, future sales of common shares by the Company or current shareholders, the realization of any of the risks described herein and many other factors could have considerable repercussions on the price of the Company's common shares.

Dividends

Until now, the Company has never paid any cash dividend on its common shares and it currently intends to retain its future earnings, if any, to fund the development growth of its business. In addition, the terms of its debt facilities limit the Company's ability to pay any dividends unless certain consents are obtained and/or certain conditions are met.

Other Risk Factors

Additional risks not currently known to the Company or that the Company currently deems immaterial may also impair the Company's operations.

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 and effectiveness of disclosure controls and procedures (DC&P) and the design and effectiveness 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 December 31, 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 December 31, 2018.

Evaluation of Disclosure controls and procedures and internal controls over financial reporting

An evaluation of the effectiveness of DC&P and ICFR is carried out annually under the supervision of the CEO and the CFO and the results of the last such evaluation were communicated to the Board of Directors as part of the review made in connection with the end of fiscal year 2018. This evaluation consisted of a review of documentation and other procedures that management considered appropriate in the circumstances.

Based on this evaluation and using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) on Internal Control – Integrated Framework (2013), the two certifying officers concluded that DC&P and ICFR were effective as of December 31, 2018.

Changes in internal controls over financial reporting

No changes were made to the Company's internal controls over financial reporting that occurred during the quarter and the fiscal year ended December 31, 2018 that have materially affected, or are reasonably likely to materially affect, the internal controls over financial reporting.

Management Report

Responsibility of the Financial Statements

The Annual Audited Consolidated Financial Statements of TSO_3 Inc., which have been approved by the Board of Directors, were prepared by Management in accordance with International Financial Reporting Standards. They contain certain amounts based on best judgment and estimates as their final determination is dependent upon subsequent events. It is the opinion of Management that the accounting policies utilized are appropriate in the circumstances and are adequate to reflect the financial position and the financial performance within reasonable limits of materiality. The financial information presented elsewhere in this annual report is consistent with the information contained in the Annual Audited Consolidated Financial Statements.

In order to carry out its responsibilities with regard to the Annual Audited Consolidated Financial Statements, Management maintains internal control systems that aim to provide a reasonable degree of certainty that transactions are duly authorized, that the assets are well protected, and that adequate records are kept.

The Board of Directors' Audit and Risk Management Committee, comprised solely of board members who are neither executives nor employees of the Company, ensures that Management assumes its responsibility in terms of consolidated financial statements.

The functions of the Audit and Risk Management Committee are to:

- Review the consolidated financial statements and recommend them for approval by the Board of Directors;
- Review the systems of internal control and security;
- Recommend the appointment of the independent auditor and its fee arrangements to the Board of Directors;
- Review other accounting, financial and security matters as required.

This committee meets regularly with Management and the independent auditor. The latter may, as it see fit, meet with the Audit and Risk Management Committee, with or without Management, to discuss matters affecting the audit and financial information.

The independent auditor is appointed to report to the shareholders regarding the fairness of presentation of the Company's consolidated financial statements. The independent auditor fulfills its responsibility by carrying out an independent audit of these consolidated financial statements in accordance with Canadian generally accepted auditing standards.

The Management, Discussion and Analysis has been prepared as at March 27, 2019. Additional information on the Company is available through regular filing of press releases, annual reports, quarterly financial statements and the Annual Information Form on the SEDAR website www.sedar.com.

On behalf of Management,

Richard M. Rumble
President and Chief Executive Officer

Glen Kayll
Chief Financial Officer

March 27, 2019

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2018 and 2017

Independent Auditor's Report

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To the shareholders of TSO_3 Inc.,

Opinion

We have audited the consolidated financial statements of TSO_3 Inc. (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2018 and 2017, and the consolidated statements of loss and comprehensive loss, changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty related to Going Concern

We draw attention to Note 2 in the consolidated financial statements, which indicates that the Company incurred a net loss of $US 13.2 million during the year ended December 31, 2018 and, as of that date, the Company's accumulated deficit amounts to $US 116.4 million. As stated in Note 2, these events or conditions, along with other matters as set forth in Note 2, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. The other information comprises the information, other than the financial statements and our auditor's report thereon, in the Annual Report.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained the Annual Report, which includes Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Carl Magnan.

March 27, 2019

/s/Deloitte LLP 1

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1 CPA auditor, CA, public accountancy permit No. A121501

Consolidated Statements of Loss and Comprehensive Loss

Years ended December 31, 2018 and 2017 (in thousands of US dollars, except per share amounts)

	Notes	2018 $	2017 $
Revenues	**4**	**2,532**	19,726
Cost of sales	**6**	**1,534**	12,068
Gross profit		**998**	7,658
Expenses			
Research and development		**5,547**	6,222
Selling, general and administrative		**10,348**	8,728
Financial (income) expenses	**5**	**(1,678)**	132
Total Expenses		**14,217**	15,082
Net loss before income taxes		**(13,219)**	(7,424)
Income taxes	**20**	**25**	30
Net loss and total comprehensive loss		**(13,244)**	(7,454)
Weighted average number of outstanding shares (in thousands)		**93,108**	92,508
Basic and diluted net loss per share	**23**	**(0.14)**	(0.08)
Basic and diluted net comprehensive loss per share	**23**	**(0.14)**	(0.08)

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

Consolidated Statements of Changes in Equity

(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	15	809	(269)	-	-	540
Share-based compensation	16	-	2,134	-	-	2,134
Net loss for the period		-	-	(7,454)	-	(7,454)
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	15	255	(89)	-	-	166
Share-based compensation	16	-	2,055	-	-	2,055
Net loss for the period		-	-	(13,244)	-	(13,244)
Balance at December 31, 2018		111,470	8,540	(116,430)	(1,712)	1,868

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

Consolidated Statements of Financial Position

As of December 31, 2018, and 2017 (In thousands of US dollars)

	Notes	2018 $	2017 $
Current Assets			
Cash and Cash Equivalents	7	**12,961**	8,044
Investments	7	**-**	6,764
Accounts Receivable	8	**1,591**	651
Inventories	9	**3,534**	2,040
Current Tax Assets		**16**	-
Prepaid Expenses		**261**	150
		18,363	17,649
Non-current Assets			
Property, Plant and Equipment	10	**2,039**	3,184
Intangible Assets	11	**1,781**	1,886
		3,820	5,070
		22,183	22,719
Current Liabilities			
Accounts Payable and Accrued Liabilities	7	**1,858**	2,430
Warranty Provision	12	**273**	1,263
Current Tax Liabilities		**-**	68
Deferred Revenues	13	**103**	6
		2,234	3,767
Non-current Liabilities			
Defered Tax Liabilities		**51**	17
Debt	14	**16,711**	-
Embedded Derivative	14	**1,319**	-
Deferred Revenues	13	**-**	6,044
		20,315	9,828
Equity			
Share Capital	15	**111,470**	111,215
Reserve – Share-based Compensation	16	**8,540**	6,574
Deficit		**(116,430)**	(103,186)
Accumulated Other Comprehensive Loss		**(1,712)**	(1,712)
		1,868	12,891
		22,183	22,719

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

Approved by the Board

Director

Director

Consolidated Statements of Cash Flows

As of December 31, 2018, and 2017 (In thousands of US dollars)

	Notes	2018 $	2017 $
Cash flows from operating activities			
Net loss		**(13,244)**	(7 ,454)
Adjustments for:			
Depreciation and amortization	10,11	**1,112**	966
Loss on write-down of property, plant and equipment	10	**450**	46
Loss on write-down of intangibles assets	11	**98**	-
Loss on write-down of inventories	9	**544**	-
Income tax		**(84)**	(92)
Deferred income tax liabilities		**34**	68
Share-based compensation	16	**2,055**	2,134
Reversal of warranty provision	12	**(973)**	-
Capitalized interest on long term debt	14	**1,210**	-
Gain on re-measurement at fair-value on embedded derivative	14	**(2,898)**	-
Investment income	5	**(111)**	(131)
		(11,807)	(4,463)
Changes in non-cash operating working capital items	18	**(9,730)**	1,148
Interest received		**149**	185
Cash flows used by operating activities		**(21,388)**	(3,130)
Cash flows from investing activities			
Acquisition of investments		**-**	(6,349)
Disposal of investments		**6,726**	16,091
Acquisition of property, plant and equipment	10	**(107)**	(1,569)
Acquisition of intangible assets	11	**(198)**	(239)
Proceed from disposal of property, plant and equipment		**-**	2
Cash flows generated by investing activities		**6,421**	7,936
Cash flows from financing activities			
Issuance of debt	14	**20,000**	-
Financing fee	14	**(282)**	-
Options exercised	15	**166**	540
Cash flows generated by financing activities		**19,884**	540
Increase in cash and cash equivalents		**4,917**	5,346
Cash and cash equivalents at the beginning		**8,044**	2,698
Cash and cash equivalents at the end		**12,961**	8,044

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

Notes to the Consolidated Financial Statements

Years ended December 31, 2018 and 2017 (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. Its products are designed to specifically address the changing requirements of sterile processing areas in operating rooms ("OR") or central sterilization departments ("CSSD"), and most recently, to provide terminal sterilization of complex medical devices used in the gastroenterology departments ("GI"). TSO_3 offers an advantageous replacement solution to other low temperature sterilization and high-level disinfection processes currently used by medical facilities to reprocess sensitive devices and instruments. The Company 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 consolidated financial statements (the "financial statements") have been prepared in accordance with International Financial Reporting Standards (IFRS), included in the CPA Canada Handbook.

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. At the time, the Company was 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.

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 included an obligation for the Company to repurchase not less than 100 STERIZONE® VP4 Sterilizers for $3.3 million.

On August 1, 2018, 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. As at December 31, 2018, $7.9 million has been used to repurchase 230 units and related accessories from Getinge.

As of December 31, 2018, the Company had positive working capital of $16.1 million, an accumulated deficit of $116.4 million, and a net loss of $13.2 million for the year ended December 31, 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 significant doubt on the Company's ability to continue as a going concern.

Notes to the Interim Condensed Consolidated Financial Statements

Years ended December 31, 2018 and 2017 (In thousands of US dollars, unless otherwise indicated)

2. Accounting Policies (cont'd)

Going Concern (cont'd)

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.

The consolidated financial statements as of December 31, 2018 have been prepared under the assumption that the Company will continue as a going concern for the next twelve months. The Company's ability to continue its operations and to realize assets at their carrying values is dependent upon its ability to generate additional revenue from the sale of sterilizers, attain further operating efficiencies, obtain additional equity and/or debt financing, and/or to reduce expenditures. The Company has been successful in the past in raising funds but there is material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern. The consolidated financial statements as of December 31, 2018 do not include any adjustments that might result from the outcome of this uncertainty.

Presentation Currency and Foreign Currency Translation

Foreign currency transactions of the Company are translated into US dollars as follows: monetary assets and liabilities are translated at the exchange rate in effect at the reporting date, non-monetary assets and liabilities are translated at historical rates, revenues and expenses are translated at the exchange rates in effect at the time of the transaction, and exchange gains or losses resulting from translation are recorded in net income.

Scope of Consolidation

The financial statements include the accounts of the Company and TSO_3 Corporation, its wholly-owned subsidiary. TSO_3 Corporation was created during the second quarter of 2015. Intercompany transactions, balances and unrealized gains or losses on transactions between group companies are eliminated.

A subsidiary is an entity over which the Company has control. Control exists when the Company has of the following elements: (1) the power over the activities of the subsidiary, (2) the exposure or rights to variable returns from its involvement with the subsidiary and (3) the ability to use its power over the subsidiary to affect the amount of the Company's returns. A subsidiary is consolidated from the date on which control is transferred to the Company. They are deconsolidated from the date that control ceases.

New standard adopted by the Company

IFRS 2 Share-based Payment

On June 20, 2016, the IASB published an admendment to IFRS 2 Share-based Payments. The amendment Classification and Measurement of Share-based Payment Transactions clarifies how to account for certain types of share-based payment transactions. The amendment provides requirements on the accounting for: the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, share-based payment transactions with a net settlement feature for witholding tax obligations and the effect of a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. No impact on the Company's financial statements.

Notes to the Consolidated Financial Statements

Years ended December 31, 2018 and 2017 (In thousands of US dollars, unless otherwise indicated)

2. Accounting Policies (cont'd)

New standard adopted by the Company (cont'd)

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.

IFRIC 22 Foreign Currency Transactions and Advance Consideration

On December 8, 2016, the IASB published Interpretation IFRIC 22 Foreign Currency Transactions and Advance Consideration. This interpretation provides guidance on the exchange rate to use in transactions that involve advance consideration paid or received in a foreign currency. No significant impact on the Company's financial statements.

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.

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 shipped.

Notes to the Consolidated Financial Statements

Years ended December 31, 2018 and 2017 (In thousands of US dollars, unless otherwise indicated)

2. Accounting Policies (cont'd)

Revenue Recognition (cont'd)

Sale of sterilizers and associated license fees (cont'd)

The Company signed a five-year exclusive distribution agreement with Getinge Infection Control AB ("Getinge") in 2015 that included 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 purchase price 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.

Following the termination agreement with Getinge on August 1st, 2018, the Company applied the $6.0 million balance in deferred revenues as it related to deferred license fee associated with the Getinge Agreement against inventories it repurchased from Getinge.

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 shipped.

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.

Share-Based Compensation

The Company uses the fair value method to measure compensation expense at the date of award of stock options to employees. Fair value is determined using the Black-Scholes option pricing model and is amortized to net income over the vesting period with an offset to the Reserve - Share-Based Compensation. The amortization of the fair value is based on a graded vesting approach over the vesting period and takes into consideration the number of options which are expected to vest. The forfeiture rate is revised at each reporting date and changes are recorded to net income. When options are exercised, the corresponding amount in the Reserve - Share-Based Compensation and the proceeds received by the Company are credited to share capital. The Stock option plan is an equity-settled plan.

Notes to the Consolidated Financial Statements

Years ended December 31, 2018 and 2017 (In thousands of US dollars, unless otherwise indicated)

2. Accounting Policies (cont'd)

Deferred Share Unit and Restricted Share Unit Plan

Deferred share units ("DSUs") and Restricted Share Unit ("RSUs") are awarded in connection with the Stock Incentive Compensation Plan. Under this plan, each eligible person, typically members of the board of directors, receives a portion of his compensation in the form of DSUs or RSUs. The Company uses the fair market value to measure compensation expense at the date of award of the DSU and RSU. The fair market value is determined using the closing price of the day before the award. The amortization of the fair value is based on a graded vesting method over the vesting period, and takes into consideration the number of DSU and RSU which are expected to vest. The Deferred Share Unit and Restricted Share Unit plan is classified as an equity-settled plan.

Income Taxes

Income tax expense represents the sum of the current and deferred tax. Tax is recognized in the consolidated statements of loss and comprehensive loss, except to the extent it relates to items recognized directly in equity, in which case the related tax is recognized in equity.

Current tax assets or tax liabilities represent obligations or claims of the tax authorities for prior or current periods that have not been received or paid on the ending date of each reporting period of financial information. Current tax is calculated based on taxable income, which differs from accounting income. Current tax liabilities are measured using rates in effect or substantively in effect at the end of each reporting period.

Deferred tax

Deferred tax is accounted for using a temporary difference approach and is the tax expected to be payable or recoverable on temporary differences between the carrying amount of assets and liabilities in the consolidated statement of financial position and the corresponding tax bases on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates and laws enacted or substantively enacted at the statement of financial position date.

Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax liabilities are recognized for taxable temporary differences arising on investments in subsidiaries except where the reversal of the temporary difference can be controlled and it is probable that the difference will not reverse in the foreseeable future.

Government Assistance and Research and Development Tax Credits

The Company incurs research and development expenses that are eligible for tax credits. The recorded tax credits are based on management's estimates of amounts expected to be recovered and are subject to audit by tax authorities. Government assistance, including the tax credits for scientific research and experimental development costs, is presented as a reduction of the related expense.

Inventories

The cost of inventories is primarily determined using the first-in, first-out method. The specific identification of the individual cost is also used for inventories segregated for specific projects. In both cases, the cost of work in progress and finished goods includes the cost of raw materials and an applicable share of the cost of labor and manufacturing overhead based on normal production rates. Inventories are valued at the lower of cost and net realizable value.

Notes to the Consolidated Financial Statements

Years ended December 31, 2018 and 2017 (In thousands of US dollars, unless otherwise indicated)

2. Accounting Policies (cont'd)

Inventories (cont'd)

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

Property, Plant and Equipment

Property, plant and equipment are recorded initially and subsequently at cost less depreciation and impairment. Depreciation is calculated using the straight-line method over the following estimated useful lives taking into account any residual value:

Office Furniture and Lift Truck	10 years
Equipment and Tools	7 years
Sterilizers Used Internally	5 years
Sterilizers Used Externally	1 year
Marketing Stand and Demonstration Equipment	5 years
Medical Devices	3 years
Computer Equipment	3 years
Leasehold Improvements	2 years

The residual value, depreciation method and the useful life of an asset are reviewed at the end of each fiscal year.

Intangible Assets

Intangible assets are recorded initially and subsequently at cost less amortization and impairment. Amortization is calculated using the straight-line method over the following estimated useful lives taking into account any residual value:

Acquired in a Business Combination	
Technology	20 years
Acquired Externally	
Patents	20 years
Licenses	9 years
Software	3 years
Trademarks	10 and 15 years

The residual value, amortization method and the useful life of an asset are reviewed at the end of each fiscal year.

Impairment of Property, Plant and Equipment and Intangible Assets

At the end of each reporting period, assets are reviewed for indication of any impairment. When such indicators are identified, the Company is required to perform an impairment test in order to measure the asset's recoverable value and to establish the amount of the impairment loss, if any. If it is not possible to determine the recoverable value for an individual asset, then the recoverable value is determined for the cash generating unit holding the asset.

Notes to the Consolidated Financial Statements

Years ended December 31, 2018 and 2017 (In thousands of US dollars, unless otherwise indicated)

2. Accounting Policies (cont'd)

Impairment of Property, Plant and Equipment and Intangible Assets (cont'd)

The recoverable value is the higher of (1) an asset fair value less the cost to sell it and (2) its value in use. Value in use is the present value of estimated future cash flows discounted using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which estimated future cash flows were not adjusted.

If the asset's (or a cash generating unit's) estimated recoverable value is lower than its carrying value, the asset (or the cash generating unit's) carrying value is reduced to its recoverable value. An impairment loss is immediately recognized in the Consolidated Statements of Loss and Comprehensive Loss.

Where an impairment loss subsequently reverses, the carrying value of the asset is increased to the revised estimate of its recoverable value, but such reversal may not increase the carrying value in excess of the carrying value that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized immediately in the Consolidated Statements of Loss and Comprehensive Loss.

During the year ended December 31, 2018, the Company performed an impairment test and the results allowed the Company to conclude that no impairment loss needs to be recorded.

Warranty Provision

The Company offers a standard warranty of 12-months for product sold through to end users. The estimated cost of the warranty is based on the expectation of the Company regarding defective sterilization devices and their related spare parts and accessories, the probability that these defects will materialize and their repair costs.

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
Debt		Amortized Cost
Embedded derivatives		Fair value through profit or loss

Notes to the Consolidated Financial Statements

Years ended December 31, 2018 and 2017 (In thousands of US dollars, unless otherwise indicated)

2. Accounting Policies (cont'd)

Financial Instruments (cont'd)

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 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.

Accounts Receivable

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.

Debt

Debt is accounted for at amortized cost using the effective interest method.

Embedded derivatives

An embedded derivative is a feature within a contract, such that the cash flows associated with that feature behave in a similar fashion to a stand-alone derivative. Embedded derivatives that are separated from the host contract are accounted for at fair value through profit or loss.

The terms of the debt include an embedded conversion feature which provides for the conversion of the debt into common shares at a variable rate due to a price protection feature (down-round protection). The Company determined that the conversion feature was an embedded derivative liability that required separation from the financial liability host contract. The embedded derivative liability is recognized and measured at fair value at each reporting date with changes in fair value recorded in financial (income) expenses in the statement of loss and comprehensive loss in the period in which they arise. The liability component of the debt is determined at inception by reducing the fair value of the embedded derivative from the fair value of the instrument as a whole.

Effective interest method

The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest over the relevant period. The effective interest rate is the rate that discounts estimated future cash receipts (including transaction costs and other premiums or discounts) through the expected term of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Notes to the Consolidated Financial Statements

Years ended December 31, 2018 and 2017 (In thousands of US dollars, unless otherwise indicated)

2. Accounting Policies (cont'd)

Financial Instruments (cont'd)

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.

Transaction costs that relate to the issue of the debt are allocated to the liability and embedded derivative components in proportion to the allocation of the gross proceeds. Transaction costs relating to the embedded derivative liability component are expensed directly in profit and loss and transaction costs relating to the financial liability component are included in the carrying amount of the liability component and are amortized over the expected lives of the convertible 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.

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.

Critical Accounting Judgments and Key Sources of Estimates Uncertainty

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

Notes to the Consolidated Financial Statements

Years ended December 31, 2018 and 2017 (In thousands of US dollars, unless otherwise indicated)

2. Accounting Policies (cont'd)

Critical Accounting Judgments and Key Sources of Estimates Uncertainty (cont'd)

1. *Recoverability of Long-Lived Assets*

   On an annual basis, the Company evaluates if there are indicators of impairment. When such indicators are identified, the Company is required to perform an impairment test in order to measure the recoverable amount of its long-lived assets. The main judgments made by management for the impairment test performed as at December 31, 2018 were the following:

   - Most probable discounted cash flow projections based on management's best estimate of the range of economic conditions that will exist over the remaining useful life of the intangible assets and property, plant and equipment;
   - A pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the intangible assets and property, plant and equipment.

2. *Inventory Valuation*

   At each reporting period, the Company evaluates the value of its inventories. The obsolescence and the net realizable value are reviewed on an ongoing basis by management of the supply chain function based on its experience and knowledge of the current market conditions.

3. *Government Assistance and Research and Development Tax Credits*

   Government assistance and research and development tax credits are recorded in the financial statements under item "Research and Development" when there is reasonable assurance that the Company has complied with, and will continue to comply with, all of the conditions necessary to obtain the assistance.

4. *Share-Based Compensation*

   The share-based compensation expense related to the award of stock options has been amortized using the graded vesting method. The options awarded pursuant to the Company's option plan generally vest over a three-year period and may be exercised within a maximum of 10 years of the award date. In evaluating the value of the share-based compensation, the Company estimates critical parameters such as the expected volatility, the expected life of the option, the risk free interest-rate, as well as the estimated number of options that will vest.

5. *Functional Currency*

   The Company applies judgment in determining the functional currency of the Company and its subsidiary. Functional currency is determined based on the currency that influences the elaboration of sales prices and on the currency that influences labor, materials and others costs.

6. *Warranty*

   The Company estimates the possible liabilities that it may incur under its product warranty obligations.

   The Company accrues for warranty costs as part of the cost of sales based on historical expenditure on material costs, technical support labor costs, and associated overheads.

Notes to the Consolidated Financial Statements

Years ended December 31, 2018 and 2017 (In thousands of US dollars, unless otherwise indicated)

2. Accounting Policies (cont'd)

Critical Accounting Judgments and Key Sources of Estimates Uncertainty (cont'd)

7. Embedded Derivative

The embedded derivative is measured at fair value for financial reporting purposes. In estimating the fair value, the Company hired third party qualified valuators to perform the valuation. The Company works closely with the qualified external valuation to establish the appropriate valuation techniques and inputs to the model.

3. Future Accounting Changes

On January 13, 2016, the IASB issued IFRS 16, which will replace the following standards: IAS 17 Leases, IFRIC 4 Determining Whether an Arrangement Contains a Lease, SIC-15 Operating Leases - Incentives, and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. This new standard sets out the requirements for recognizing and disclosing leases. The objective is to ensure that lessees and lessors provide relevant information that faithfully represents the transactions. The IFRS 16 is effective January 1, 2019. The Company is currently evaluating the impact of this new standard on its consolidated financial statements.

4. Revenues

	2018 $	2017 $
Sterilizers	**1,036**	17,814
Accessories	**103**	47
Consumables	**935**	603
Service	**458**	389
License Fees	**-**	873
	2,532	19,726

5. Financial (Income) Expenses

	2018 $	2017 $
Financial Income		
Investment Income	**(111)**	(131)
Gain on re-measurment at fair-value on embedded derivative	**(2,898)**	-
	(3,009)	(131)
Financial Expenses		
Bank Charges	**54**	57
Factoring Cost	**5**	99
Interest on long term debt	**1,210**	-
Financing fees	**54**	-
Foreign Exchange Loss	**8**	107
	1,331	263
Total Financial (Income) Expenses	**(1,678)**	132

Notes to the Consolidated Financial Statements

Years ended December 31, 2018 and 2017 (In thousands of US dollars, unless otherwise indicated)

6. 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:

	2018 $	2017 $
Salary and Other Benefits	**6,987**	7,291
Share-based compensation expense	**2,055**	2,134
Depreciation of Property, Plant and Equipment	**907**	777
Amortization of Intangible Assets	**205**	189
Research and Development Tax Credits	**(51)**	(184)
Warranty recorded in cost of sales	**(655)**	845

Cost of sales in 2018 included a $1.0 million reversal of the warranty provision accrual following the termination of the agreement with Getinge in August 2018 and the repurchase of the STERIZONE® VP4 Sterilizers for which the warranty accrual was recorded in prior periods.

Severance Expenses

During the year 2018, the Company recorded severance expenses to some of its employees for a total amount of $0.1 million ($0.2 million for the year 2017).

7. Financial Instruments

Cash and Cash Equivalents

	2018 $	2017 $
Cash and cash equivalents	**12,961**	8,044

Investments

	2018 $	2017 $
Bonds	**-**	6,764

Accounts Receivable

	2018 $	2017 $
Accounts Receivable	**1,591**	651

Accounts Payable and Accrued Liabilities

	2018 $	2017 $
Accounts Payable and Accrued Liabilities	**1,858**	2,430

Notes to the Consolidated Financial Statements

Years ended December 31, 2018 and 2017 (In thousands of US dollars, unless otherwise indicated)

7. Financial Instruments (cont'd)

Debt and Embedded Derivative

	2018 $	2017 $
Debt	**16,711**	-
Embedded Derivative	**1,319**	-

Investments were rated A- or better and had an average yield of 1.48% as at December 31, 2017. No investments as at December 31, 2018.

Bonds held by the Company were 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.

The Company's risk exposure includes the risk incurred in connection with its investments in financial instruments, namely cash, cash equivalents and investments. In order to manage the risk entailed by these financial instruments an investment policy was adopted and implemented. The Company considers that the return on investments is secondary to risk minimization and primarily aims to optimize cash flow from a maturity perspective. With respect to investments, the main risk exposures are as follows:

Market Risk

Market risk is the risk that the value of a financial instrument will fluctuate as a result of changes in the parameters underlying its measurement, particularly interest rates and exchange rates.

Liquidity Risk

Liquidity risk represents the possibility that the Company may not be able to monetize its financial instruments so as to meet its financial commitments at the appropriate time and under reasonable conditions.

The Company's maximum exposure to liquidity risk is equal to the amounts recognized as accounts payable and accrued liabilities and these amounts will be paid in the following year. The Company manages this risk by maintaining sufficient liquidity available on demand to meet current and future financial obligations.

Interest Rate Risk

Interest rate risk exists when interest rate fluctuations modify the cash flows of the Company's investments, including the price at which an investment could be sold.

As December 31, 2017, if interest rates on that date had been 0.5% lower, and all other variables held constant, the consolidated net loss and comprehensive loss for the period would have been $0.03 million lower, arising mainly as a result of an increase in the fair value of fixed rate financial assets classified at fair value through profit or loss. If the interest rates on that date had been 0.5% higher, all other variables being held constant, the consolidated net loss and comprehensive loss for the period would have been $0.03 million higher, arising mainly as a result of a decrease in the fair value of fixed rate financial assets classified at fair value through profit or loss. The net loss and comprehensive loss therefore have substantially the same sensitivity to interest rate increases and interest rate decreases. The Company has no investments as at December 31, 2018.

Notes to the Consolidated Financial Statements

Years ended December 31, 2018 and 2017 (In thousands of US dollars, unless otherwise indicated)

7. Financial Instruments (Cont'd)

Credit Risk

The use of financial instruments can create a credit risk entailing a risk of financial loss resulting from counterparty's inability or refusal to fully meet its contractual obligations. The Company's maximum exposure to credit risk is equal to the amounts recognized as receivables from clients, cash and cash equivalents and investments.

During 2016 the Company entered into a receivables factoring program with Getinge and one of its partner banking institutions. This program allowed the Company to factor all outstanding receivables that Getinge posts to the program at relatively low cost, and, when doing so, collect cash earlier and reduce the Company's credit exposure to Getinge and the credit risk related to Getinge receivables. This program was used until August 1, 2018.

The Investment Policy established by the Company addresses management of credit risk exposures and permits investments in securities or instruments issued by, or guaranteed by, the Canadian federal or provincial governments, crown corporations as well as certain municipalities and financial institutions, provided that the issuer or guarantor benefits from a credit rating not less than A- on the rating scale of Standard and Poor's or the equivalent for other credit rating agencies. This policy sets limits to the size of exposures.

As at December 31, 2017, the Company's investments were rated by at least two recognized agencies and were within the credit ratings required by the Company's investment policy.

Concentration Risk

Concentration risk exists when investments are made with multiple entities that share similar characteristics or when a large investment is made with a single entity.

As at December 31, 2018 and 2017, there was no single investment that exceeded the limit required under the Company's Investment Policy.

Currency Risk

The risk related to the exchange rate on financial instruments exists when monetary assets or liabilities are denominated in foreign currencies.

As at December 31, 2018, if the US dollar had weakened 10 percent against the Canadian dollar with all other variables held constant, the net loss and comprehensive loss for the year ended December 31, 2018 would have been $0.01 million lower ($0.4 million for the year ended December 31, 2017). Conversely, if the US dollar had strengthened 10 percent against the Canadian dollar with all other variables held constant, the net loss and comprehensive loss for the year ended December 31, 2018 would have been $0.01 million higher ($0.4 million for the year ended December 31, 2017).

Notes to the Consolidated Financial Statements

Years ended December 31, 2018 and 2017 (In thousands of US dollars, unless otherwise indicated)

8. Accounts Receivable

	2018 $	2017 $
Receivables from Clients and Related Parties	**1,347**	217
Government Credits Receivable	**244**	434
	1,591	651

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

Trade accounts receivable past due is defined as amount outstanding beyond normal credit terms and conditions for the respective customers. The Company's considers the amount outstanding as past due after 30 days. The following table provides further details on trade accounts receivable past due as at December 31, 2018 and 2017:

	2018 $	2017 $
Current	**690**	211
Less than 30 days past due	**311**	-
30 to 60 days past due	**16**	3
More than 60 days past due	**330**	3
	1,347	217

9. Inventories

	2018 $	2017 $
Raw Materials	**925**	1,137
Work in Progress	**74**	242
Finished Goods	**2,535**	661
	3,534	2,040

Cost of sales expenses included a write-off of raw materials of $0.6 million for the year ended December 31, 2018 ($0.1 million for the year ended December 31, 2017).

On August 1, 2018, the Company bought from Getinge $0.3 million of accessories and $7.6 million of finished goods representing 230 STERIZONE® VP4 sterilizers for $33,000 per sterilizer for a total repurchase amount of $7.9 million. The Company also applied the remaining $6.0 million balance of deferred license fee associated with the Getinge Agreement against the finished goods the Company repurchased from Getinge. In addition, the Company also applied a repurchase provision of $0.5 million related to the upgrades of 47 STERIZONE® VP4 Sterilizers to Getinge against finished goods. In the second quarter of 2018, 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, the Company recorded an associated $0.5 million repurchase provision and retained $0.3 million of associated upgrade costs of sales in inventory.

Notes to the Consolidated Financial Statements

Years ended December 31, 2018 and 2017 (In thousands of US dollars, unless otherwise indicated)

10. Property, Plant and Equipment

	Lift Truck, Equipment and Tools $	Sterilizers used Internally And Externally $	Marketing and Admin Furniture and Demons-tration Equipment $	Medical Devices $	Computer Equipment $	Leasehold Improve-Ments $	Total $
Cost							
Balance at January 1, 2018	1,677	2,133	271	1,135	362	596	6,174
Additions	26	36	-	-	16	29	107
Transfer from inventories	-	105	-	-	-	-	105
Write-off	-	(450)	-	-	-		(450)
Balance at December 31, 2018	1,703	1,824	271	1,135	378	625	5,936
Accumulated Depreciation							
Balance at January 1, 2018	962	801	172	615	184	256	2,990
Depreciation	128	305	23	243	87	121	907
Balance at December 31, 2018	1,090	1,106	195	858	271	377	3,897
Net Carrying Amount at December 31, 2018	613	718	76	277	107	248	2,039

	Lift Truck, Equipment and Tools $	Sterilizers used Internally And Externally $	Marketing and Admin Furniture and Demons-tration Equipment $	Medical Devices $	Computer Equipment $	Leasehold Improve-Ments $	Total $
Cost							
Balance at January 1, 2017	1,404	1,702	235	672	208	408	4,629
Additions	283	445	36	463	154	188	1,569
Disposals	(10)	-	-	-	-	-	(10)
Transfer from inventories	-	112	-	-	-	-	112
Transfer to inventories	-	(45)	-	-	-	-	(45)
Write-off	-	(81)	-	-	-	-	(81)
Balance at December 31, 2017	1,677	2,133	271	1,135	362	596	6,174
Accumulated Depreciation							
Balance at January 1, 2017	870	528	148	446	118	162	2,272
Depreciation	102	322	24	169	66	94	777
Disposal	(10)	-	-	-	-	-	(10)
Transfer to Inventories	-	(14)	-	-	-	-	(14)
Write-off	-	(35)	-	-	-	-	(35)
Balance at December 31, 2017	962	801	172	615	184	256	2,990
Net Carrying Amount at December 31, 2017	715	1,332	99	520	178	340	3,184

Notes to the Consolidated Financial Statements

Years ended December 31, 2018 and 2017 (In thousands of US dollars, unless otherwise indicated)

11. Intangible Assets

	Technology	Patents Licenses Trademarks	Software	Total
	$	$	$	$
Cost				
Balance at January 1, 2018	2,156	1,281	281	3,718
Additions	-	77	121	198
Write-off	-	-	(98)	(98)
Balance at December 31, 2018	2,156	1,358	304	3,818
Accumulated Amortization				
Balance at January 1, 2018	1,400	278	154	1,832
Amortization	108	68	29	205
Balance at December 31, 2018	1,508	346	183	2,037
Net Carrying Amount at December 31, 2018	648	1,012	121	1,781

	Technology	Patents Licenses Trademarks	Software	Total
	$	$	$	$
Cost				
Balance at January 1, 2017	2,156	1,161	162	3,479
Additions	-	120	119	239
Balance at December 31, 2017	2,156	1,281	281	3,718
Accumulated Amortization				
Balance at January 1, 2017	1,292	214	137	1,643
Amortization	108	64	17	189
Balance at December 31, 2017	1,400	278	154	1,832
Net Carrying Amount at December 31, 2017	756	1,003	127	1,886

12. Warranty Provision

	2018 $	2017 $
Balance as at January 1, 2018	**1,263**	575
Additions	**260**	845
Reversal	**(973)**	-
Cost incurred	**(277)**	(157)
Balance as at December 31, 2018	**273**	1,263

13. Deferred Revenues

On November 25, 2015, the Company and Getinge entered into 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. On August 1, 2018, the Company and Getinge announced that they mutually decided not to renew the distribution agreements between the parties and the Company repurchased 230 STERIZONE® VP4 Sterilizer for $33,000 per sterilizer to be reinserted in inventories. The $6.0 million remaining balance of the deferred license fee revenue has been applied against this repurchase of inventories.

Current deferred revenues include the unamortized portion of prepaid service contracts covering a part of the installed base of STERIZONE® VP4 Sterilizers in Canada.

Notes to the Consolidated Financial Statements

Years ended December 31, 2018 and 2017 (In thousands of US dollars, unless otherwise indicated)

14. Debt

	2018 $	2017 $
Convertible note of $15.0 million, non-callable, convertible into common shares of the Company at a price of US$0.82 per common share bearing interest at 10% per annum, compounded quarterly and payable in cash, at or prior to the maturity date of the Convertible note at the option of the Company, maturing in August 2023. In the event the company issues shares in a public or private placement at an issue price per share below the conversion price, the conversion price shall be adjusted downward so that the lender shall receive upon conversion of the Note the number of shares which maintains the same equity ownership potential that the lender had immediately prior to the share issuance.		
Debt balance	**10,783**	-
Imputed Interest	**958**	-
	11,741	-
Term loan, bearing interest at 12% per annum, compounded quarterly and payable in cash, at or prior to the maturity date of the Term loan, maturing in August 2023, callable after two years. 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.		
Debt balance	**5,000**	-
Imputed Interest	**252**	-
	5,252	-
Less financing fees	**(282)**	-
	16,711	-

The convertible note contains two components: debt and embedded derivative. The effective interest rate of the debt on initial recognition is 17.18% per annum. The term loan effective interest rate on initial recognition is 12.35% per annum.

	2018 $	2017 $
Embedded Derivative reported as long-term liability as at August 1, 2018	**4,217**	-
Gain on re-measurement at fair-value on embedded derivative	**(2,898)**	-
Embedded Derivative reported as long-term liability	**1,319**	-

Expenses associated with the embedded derivative consist of:

	2018 $	2017 $
Gain on re-measurement at fair-value on embedded derivative	**(2,898)**	-

Under the terms and conditions of the agreements on the debt with its lenders, the Company is subject to certain covenants, including a minimum liquidity covenant of $5.0 million. As at December 31, 2018, these covenants were met by the Company.

Notes to the Consolidated Financial Statements

Years ended December 31, 2018 and 2017 (In thousands of US dollars, unless otherwise indicated)

15. 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:

	2018		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	**610,934**	**255**	877,090	809
Balance at the End	**93,465,238**	**111,470**	92,854,304	111,215

During the year 2018, pursuant to the Company's Stock Option Plan, 610,934 stock options were exercised for an aggregate cash consideration of $0.3 million. During the year 2017, 877,090 options were exercised for an aggregate cash consideration of $0.9 million.

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 and Restricted Share Unit Plan

DSUs and RSUs 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 and RSUs. DSUs and RSUs are 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 and RSUs are payable on the termination of service of the participant. The value of a DSU or RSU is determined based on the closing price of the Common Shares of the Company for the last trading day. The DSUs and RSUs 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 or RSUs, the value of a DSU or RSU 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 or RSUs.

As at December 31, 2018, 0.5 million DSUs and RSUs were awarded (0.1 million as at December 31, 2017). During the year ended December 31, 2018, TSO_3 recorded a compensation expense of $0.2 million ($0.2 million as at December 31, 2017) for its deferred share unit plan.

Notes to the Consolidated Financial Statements

Years ended December 31, 2018 and 2017 (In thousands of US dollars, unless otherwise indicated)

16. Reserve – Share-Based Compensation

The Company's Board of Directors adopted the 2016 Stock Incentive Compensation Plan which includes the award of stock options, Deferred Share Units (DSUs) and Restricted Share Units (RSUs). 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 December 31, 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 year ended December 31, 2018, the Company awarded 1.0 million stock options, (2.9 million for the same period in 2017) at a weighted average exercise price of $0.59 or CAD$0.80 ($2.20 or CAD$2.76 for the same period in 2017). The weighted average fair value of these stock options was $0.50 or CAD$0.68 for the year 2018 ($1.38 or CAD$1.74 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 $2.1 million for the year ended December 31, 2018 ($2.1 million for the same period in 2017) presented in the Consolidated Statements of Loss and Comprehensive Loss in the functions based on the option holders.

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

US$	**2018 $**	2017 $
Weighted Average Share Price	$0.83	$2.20
Exercise Price	$0.83	$2.20
Risk Free Interest Rate	2.11%	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 and RSUs 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.

US$	**Number**	**2018 Weighted Average Exercise Price $**	Number	2017 Weighted Average Exercise Price $
Outstanding at beginning	**7,909,953**	**1.71**	7,024,231	1.39
Granted	**1,520,979**	**0.59**	2,977,080	2.13
Exercised	**(610,934)**	**0.29**	(877,090)	0.65
Expired	**(57,666)**	**0.96**	(19,600)	2.03
Forfeited	**(1,489,169)**	**1.92**	(1,194,668)	2.19
Outstanding at end	**7,273,163**	**1.46**	7,909,953	1.71
Exercisable at end	**4,013,883**	**1.53**	3,177,566	1.33

Notes to the Consolidated Financial Statements

Years ended December 31, 2018 and 2017 (In thousands of US dollars, unless otherwise indicated)

16. Reserve Share-Based Compensation (cont'd)

The following table summarizes certain information regarding the stock options of the Company as at December 31, 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, RSU's)	**570,179**	**Undetermined**	**294,577**	**Undetermined**
$0.01 to $0.80	**908,667**	**8.06**	**318,667**	**4.79**
$0.81 to $1.69	**2,840,567**	**5.88**	**2,006,900**	**5.05**
$1.70 to $2.89	**2,953,750**	**8.52**	**1,393,739**	**8.36**
	7,273,163	**7.34**	**4,013,883**	**6.27**

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, RSU'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

17. Capital Management

The Company needs capital primarily to finance its sale and marketing activities, its production, its research and development, its supply chain, administrative and communication expenses, its working capital and its capital expenditures. The Company's capital is comprised of share capital, debt and reserve for share-based compensation. Depending on the quality of the credit structure of a prospective debt transaction and prevailing market conditions, the Company could finance a portion of its cash needs through additional debt issues. However, given its history of negative earnings, it is unlikely at the present time that the Company could access additional senior debt financing in any sizable amount. In the past, the Company has financed its activities through public and private financings issuance of debt and, to a small extent, through government grants and tax credits.

Notes to the Consolidated Financial Statements

Years ended December 31, 2018 and 2017 (In thousands of US dollars, unless otherwise indicated)

18. Additional Information Relating to Cash Flows

	2018 $	2017 $
Changes In Non-Cash Operating Working Capital Items		
Decrease (Increase) in Assets		
Accounts Receivable	**(940)**	1,667
Inventories	**(2,038)**	(337)
Prepaid Expenses	**(111)**	(48)
Increase (Decrease) in Liabilities		
Accounts Payable and Accrued Liabilities	**(572)**	158
Warranty Provision	**(17)**	688
Current Deferred Revenues	**97**	(998)
Non-current Deferred revenues	**(6,044)**	99
Increase in Assets Transferred		
Property, Plant and Equipment Transferred to Inventories	**-**	31
Inventories transferred to Property, Plant and Equipment	**(105)**	(112)
	(9,730)	1,148
Reseach and Development Tax Credits Received	**-**	156

19. Related Party Transactions

Compensation of Key Management Personnel

People in key management positions have authority and responsibility for planning, directing and controlling the activities of the Company. The Company considers the following to be related parties:

- Its key officers and directors and member of their immediate family, i.e., spouses and children under 18 living in the same household.
- Entities over which its key officers and directors and their immediate family have control and/or significant influence through their significant power.

The remuneration of key management personnel during the year was as follows:

	2018 $	2017 $
Short-term salaries and other benefits[(1)]	**1,573**	2,430
Share-Based Payments	**17**	13
Share-Based Awards[(2)]	**1,595**	1,967
	3,185	4,410

(1) As of December 31, 2017, the Company had a unsecured receivable outstanding of $0.2 million from an executive in relation to an ordinary course income tax refund related to a tax reconciliation prepared by the Company. The executive assigned the rights to the refund to the Company. The unsecured receivable bears no interest. No such receivables were outstanding at December 31, 2018.

(2) Share-Based awards reflect the amount of the expenses accounted for during the year for stock options, DSUs and RSUs and presented as part of the Share-Based Compensation.

The compensation of key executives is determined by the Human Resources Committee taking into consideration the individual performance and market trends.

Notes to the Consolidated Financial Statements

Years ended December 31, 2018 and 2017 (In thousands of US dollars, unless otherwise indicated)

20. Income Taxes

Income tax expense is comprised of the following:

	December 31, 2018	December 31, 2017
	$	$
Current Tax Expense	**(9)**	122
Deferred Tax Expense	**34**	(92)
	25	30

Reconciliation of the effective income tax expense.

The statutory tax rate of the Company is 26.70% (26.80% for 2017). The Company's income tax expense differs from the one calculated by applying Canadian statutory rates for the following reasons:

	December 31, 2018	December 31, 2017
	$	$
Loss before Income Taxes	**(13,244)**	(7,424)
Income taxes at the standard rate of Canadian Corporate tax of 26.70% (26.80% for 2017)	**(3,536)**	(1,990)
Increase (Decrease) resulting from:		
Effect of tax rate for foreign subsidiary	**(1)**	1
Changes in tax laws and rates	**(36)**	(10)
Non-deductible items	**569**	599
Non-taxable portion gain on re-measurement on embedded derivative	**(354)**	-
Adjustments in respect of prior years	**(28)**	(30)
Tax losses and deductible temporary differences for which no deferred income tax assets is recognized	**3,411**	1460
	25	30

Quebec income tax rate decreases gradually. Income tax rate has decreased from 11.80% in 2017 to 11.70% in 2018 and will be at 11.50% by 2020.

Changes to deferred tax assets (liabilities) related to temporary differences as follows:

	December 31, 2018	December 31, 2017
	$	$
Accrued Liabilities	**215**	305
Property, Plant and Equipment	**(266)**	(322)
	(51)	(17)

Notes to the Consolidated Financial Statements

Years ended December 31, 2018 and 2017 (In thousands of US dollars, unless otherwise indicated)

20. Income Taxes (cont'd)

As at December 31, 2018, the accumulated tax losses that can be carried forward are as follows:

Expiry Date	Loss carry-forwards Federal $	Loss carry-forwards Provincial $
2038	12,392	12,333
2037	5,358	5,203
2036	3,213	3,077
2035	5,435	5,281
2034	4,202	3,994
2033	5,795	5,541
2032	3,619	3,384
2031	4,538	4,252
2030	4,838	4,642
2029	5,554	5,225
2028	5,908	5,899
2027	4,567	5,006
2026	4,021	4,270
	69,440	68,108

The ability to realize the tax benefits from these losses is dependent upon a number of factors, including the future profitability of operations in the jurisdictions in which the tax losses arose. Deferred tax assets are recognized in respect of tax losses and other temporary differences giving rise to deferred tax assets only to the extent that it is probable that sufficient taxable profits will be available to allow the asset to be recovered.

Accordingly, no deferred tax asset has been recognized on the following tax losses carried forward, tax credits and temporary differences.

	December 31, 2018 $	December 31, 2017 $
Property, Plant and Equipment	**3,478**	4,456
Financing Fees	**332**	381
SR&ED Expenditures	**10,461**	11,098
Investment tax credits, net of tax	**2,802**	2,203
Non-capital losses	**66,353**	60,638
	83,426	78,776

21. Research and Development Tax Credits

The Company claims two different types of tax credits, one type is refundable regardless of the level of taxable income, and the other can only be used to offset a tax liability. At the present time, in accordance with the Company's accounting policies, the non-refundable credits are not recorded.

For the purpose of the establishment of these tax credits, eligible research and development expenses incurred during the fiscal year 2018 totaled $0.2 million ($0.7 million in 2017).

The Company also qualifies for tax credits refundable scientific research of $0.1 million as at December 31, 2018 ($0.2 million in 2017).

Notes to the Consolidated Financial Statements

Years ended December 31, 2018 and 2017 (In thousands of US dollars, unless otherwise indicated)

22. Segmented Information

The Company is structured as a single operating segment.

Revenues	**2018 $**	**2018 %**	2017 $	2017 %
Canada and Worldwide	**536**	**21**	424	2
United States	**1,996**	**79**	19,362	98
	2,532	**100**	19,786	100

	Inventories	**Property, Plant and Equipment**	**2018 Intangible Assets**	Inventories	Property, Plant and Equipment	2017 Intangible Assets
Canada and Worldwide	**1,382**	**813**	**1,772**	1,616	1,306	1,870
United States	**2,152**	**1,226**	**9**	424	1,878	16
	3,534	**2,039**	**1,781**	2,040	3,184	1,886

For the year 2018, revenue from Getinge represented 26% of the Company's total revenues in conjunction with Getinge and TSO_3's distribution agreements (98% in 2017).

23. Loss per Share

The following table reconciles the basic and diluted loss per share for the year ended December 31:

In thousands of us $, except per share amounts	**2018 $**	2017 $
Net loss		
Basic and Diluted	**(13,244)**	(7,454)
Number of Shares		
Weighted Average Number of Outstanding Shares	**93,107,984**	92,508,009
Number of Shares		
Weighted Average Number of Outstanding Shares Diluted[(1)]	**93,107,984**	92,508,009
Loss per Share		
Basic and Diluted	**(0.14)**	(0.08)
Comprehensive loss per Share Basic and Diluted	**(0.14)**	(0.08)

1) If the Company had a profit, the weighted average number of outstanding shares diluted would have been increased by 1.2 million as of December 31, 2018 (3.9 million as of December 31, 2017) for the calculation of the diluted net loss per share.

24. Contractual Commitments

Consistent with the transfer of the STERIZONE® business from Getinge to TSO_3, the Company has agreed to pay Getinge commissions ranging from 10% to approximately 35% of certain product sales from specifically identified end customers formerly linked with Getinge. Such commissions only apply to funds received by the Company prior to December 31, 2019. Commission rates vary on the nature of such sales - with higher commission rates being associated with committed business and lower commissions being associated with non-binding commercial opportunities.

Notes to the Consolidated Financial Statements

Years ended December 31, 2018 and 2017 (In thousands of US dollars, unless otherwise indicated)

24. Contractual Commitments (cont'd)

As at December 31, 2018, the contractual commitments in the fiscal years to come are as follows:

In thousands of us $	2019 $	2020 $	2021 $	2022 $	2023 $
Operating leases and service contracts	257	140	7	6	6

Operating leases relate to leases of premises with lease terms of one to five years. The Company does not have an option to purchase the leased premises at the expiry of the lease periods. For the year ended December 31, 2018, lease expenses were $0.2 million ($0.3 million for the year ended December 31, 2017).

25. Approval of Financial Statements

The consolidated financial statements were approved by the Board of Directors on March 27, 2019.