



TSO₃ Reports Second Quarter 2019 Results

Quebec City, Canada and Myrtle Beach, United States, – August 12, 2019 – TSO₃ Inc. (TSX: TOS) ("TSO₃" or the "Company"), an innovator in sterilization technology for medical devices in healthcare settings, reports financial results for the second quarter ended June 30, 2019.

2019 Second Quarter Financial Summary

- Revenues equaled \$0.7 million, as compared to \$1.0 million in the first quarter of 2019 and \$0.4 million in the second quarter of 2018. TSO₃ delivered four sterilizers and related accessories to end users in the second quarter of 2019, along with \$0.4 million of its proprietary consumables.
- Gross profit was \$0.2 million, or 33% of revenues, as compared to \$0.4 million, or 39% of revenues, in the first quarter of 2019 and \$0.1 million, or 14% of revenues, in the second quarter of 2018.
- Research and Development expenses were \$0.8 million, as compared to \$0.7 million in the first quarter of 2019 and \$1.5 million in the year-ago quarter.
- Selling, general and administrative ("SG&A") expenses include marketing, sales, service and administrative expenses. SG&A expenses were \$2.4 million, as compared to \$2.6 million in the first quarter of 2019 and \$2.5 million in the year-ago quarter.
- Financial expense was \$1.2 million, as compared to minimal financial income in the second quarter of 2018. The Company recorded \$0.7 million of accrued interest expense and a non-cash loss of \$0.5 million on the revaluation of the derivative embedded within its outstanding Convertible Note in the second quarter of 2019.
- The Company's net loss was \$(4.2) million or \$(0.045) per share in the second quarter of 2019, as compared to \$(3.4) million or \$(0.04) per share in the first quarter of 2019 and \$(4.0) million or \$(0.04) per share in the year-ago quarter.
- The Company had \$9.2 million in cash and cash equivalents and \$19.7 million of debt as of June 30, 2019. The Company's operations consumed \$2.0 million in cash in the second quarter of 2019.

Q2 2019 and Subsequent Commercial Activities

- Sales: TSO₃ currently has 10 direct sales representatives in North America. During the second quarter of 2019, the Company received purchase orders or commitment indications for four STERIZONE[®] VP4 Sterilizers.
- Backlog: At the end of the second quarter of 2019, the Company had a backlog for future delivery of 27 sterilizers from customer purchase orders or commitment indications.
- Pipeline: As of August 1, 2019, the Company had an opportunity pipeline of more than 500 sterilizers, approximately 200 of which are being actively pursued over the remainder of 2019.
- Installations: The Company installed four STERIZONE[®] VP4 Sterilizers in the second quarter of 2019 and at the end of the quarter, 79 sterilizers were installed at end user locations.

- Group Purchasing Organization (“GPO”) Agreements: During the second quarter, the Company announced that it had signed a preferred supplier agreement with Capstone Health Alliance, a group purchasing alliance representing close to 300 acute care facilities in 24 states across the US.

Subsequent to the end of the quarter, the Company signed an Innovative Technology contract with Vizient, Inc., the largest member-driven health care performance improvement company in the US, with more than 3,100 hospital and health system members. The award was based on a recommendation from hospital experts who serve on one of Vizient’s member-led councils.

- Service: The Company had annual service contracts with its customers for 24 sterilizers on June 30, 2019. These service contracts range from one to three years in duration.
- Inventory: The Company had 219 STERIZONE® VP4 Sterilizers in inventory on June 30, 2019.

Definitive Arrangement Agreement and Going Concern

On August 12, 2019, TSO₃ entered into a definitive arrangement agreement (the “Arrangement Agreement”) pursuant to which 9402-4874 Québec Inc., a subsidiary of Stryker Corporation, will acquire all of the issued and outstanding common shares (the “Shares”) of the Company for CAD\$0.43 in cash per Share, subject to adjustment in the event the transaction expenses are greater than currently anticipated. The Company does not currently expect any adjustment to be made to the purchase price and in the event such an adjustment would be required, that it would be minimal. See the associated press release [here](#).

The interim condensed consolidated financial statements as of June 30, 2019 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 and consumables, attain further operating efficiencies, obtain additional equity and/or debt financing, and/or reduce expenditures. While TSO₃ has been successful in the past in raising funds, there is material uncertainty which may cast significant doubt over the Company’s ability to continue as a going concern. The interim condensed consolidated financial statements as of June 30, 2019 do not include any adjustments that might result from the outcome of this uncertainty.

Based on the Company’s expected rate of cash consumption, in the event the transaction under the Arrangement Agreement is not completed, the Company estimates it will need additional capital in the last quarter of 2019 and its prospects for obtaining that capital are uncertain. The Company may be able to raise either additional debt financing or additional equity financing; however, the Company can make no assurances that it will be able to raise the required additional capital on acceptable terms or at all. 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 June 30, 2019, these covenants were met by the Company. Unless the Company succeeds in raising additional capital or successfully increases cash generated from operations, it is anticipated that the Company will be unable to continue operations through the end of the last quarter of 2019 without violating this minimum cash requirement.

Summary of Results

Periods ended June 30, 2019 and 2018 (Unaudited, IFRS Basis, in thousands of US dollars, except per share amounts)

	Second quarter		Six months	
	2019	2018	2019	2018
	\$	\$	\$	\$
Revenues	748	373	1,708	628
Cost of sales	500	319	1,083	845
Gross profit	248	54	625	(217)
Expenses				
Research and development	814	1,488	1,524	3,192
Selling, general and administrative	2,423	2,523	5,005	5,074
Financial expenses (income)	1,198	(12)	1,677	(26)
Total Expenses	4,435	3,999	8,206	8,240
Net loss before income taxes	(4,187)	(3,945)	(7,581)	(8,457)
Income taxes	33	7	65	7
Net loss and comprehensive loss	(4,220)	(3,952)	(7,646)	(8,464)
Weighted average number of outstanding shares (in thousands)	93,517	92,891	93,491	92,884
Basic and diluted net loss per share	(0.045)	(0.04)	(0.08)	(0.09)
Basic and diluted net comprehensive loss per share	(0.045)	(0.04)	(0.08)	(0.09)

Consolidated Statements of Financial Position

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

	June 30, 2019	December 31, 2018
	\$	\$
Current Assets		
Cash and Cash Equivalents	9,198	12,961
Accounts Receivable	563	1,591
Inventories	3,378	3,534
Current Tax Assets	-	16
Prepaid Expenses	314	261
	13,453	18,363
Non-current Assets		
Property, Plant and Equipment	2,075	2,039
Intangible Assets	1,770	1,781
	3,845	3,820
	17,298	22,183
Current Liabilities		
Accounts Payable and Accrued Liabilities	1,774	1,858
Warranty Provision	291	273
Current Tax Liabilities	49	-
Lease Liabilities	147	-
Deferred Revenues	210	103
	2,471	2,234
Non-current Liabilities		
Deferred Tax Liabilities	51	51
Lease Liabilities	205	-
Debt	18,181	16,711
Embedded Derivative	1,536	1,319
	22,444	20,315
Equity		
Share Capital	111,470	111,470
Reserve – Share-based Compensation	9,172	8,540
Deficit	(124,076)	(116,430)
Accumulated Other Comprehensive Loss	(1,712)	(1,712)
	(5,146)	1,868
	17,298	22,183

Consolidated Statements of Cash Flows

As of June 30, 2019 and 2018 (Unaudited, IFRS Basis, in thousands of US dollars)

	2019	Six months 2018
	\$	\$
Cash flows from operating activities		
Net loss	(7,646)	(8,464)
Adjustments for:		
Depreciation and amortization	596	607
Loss on disposal of property, plant and equipment	7	-
Share-based Compensation	632	998
Capitalized interest on long term debt	1,438	-
Loss (gain) on re-measurement at fair-value on embedded derivative	217	-
Investment income	(82)	(62)
	(4,838)	(6,921)
Changes in non-cash operating working capital items	1,073	(1,087)
Interest received	82	83
Cash flows used by operating activities	(3,683)	(7,925)
Cash flows from investing activities		
Disposal of investments	-	5,126
Acquisition of property, plant and equipment	(8)	(134)
Acquisition of intangible assets	(108)	(80)
Proceed from disposal of property, plant and equipment	4	-
Cash flows (used) generated by investing activities	(112)	4,912
Cash flows from financing activities		
Financing fee	32	-
Options exercised	-	25
Cash flows generated by financing activities	32	25
Decrease in cash and cash equivalents	(3,763)	(2,988)
Cash and cash equivalents at the beginning	12,961	8,044
Cash and cash equivalents at the end	9,198	5,056

Second Quarter of 2019 Results Disclosure

The second quarter of 2019 Report is available on TSO₃'s website at www.tso3.com and will shortly be available on SEDAR (www.sedar.com).

About the STERIZONE[®] VP4 Sterilizer

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

The STERIZONE[®] VP4 Sterilizer is the only terminal sterilization method that is FDA cleared to sterilize long, multi-channel flexible endoscopes (with a maximum of four channels) of up to 3.5 meters in length - an industry first for any medical device sterilization process.

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

More information about the STERIZONE[®] VP4 Sterilizer is available through TSO₃'s website, under the Products section at www.tso3.com.

About TSO₃

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

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

The statements in this release and oral statements made by representatives of TSO₃ relating to matters that are not historical facts are forward-looking statements that involve certain risks, uncertainties and hypotheses, including, but not limited to, insufficient liquidity, completion of the transaction under the Arrangement Agreement, the ability of TSO₃ to obtain financing on favorable terms, the limited history of sales or distribution of the Company, the evolution in customer demand for the Company's products and services, the plans for sales and marketing including the fact that the Company's customers may not commit to any purchases, the ability of the Company to obtain the required regulatory clearances to market its products, general business and economic conditions, the condition of the financial markets and other risks and uncertainties. Although TSO₃ believes that the expectations reflected in such forward-looking statements are reasonable, it can give no assurance that such expectations will prove to have been correct. The complete versions of the cautionary note regarding forward-looking statements as well as a description of the relevant assumptions and risk factors likely to affect TSO₃'s actual or projected results are included in the Management's Discussion and Analysis for the year ended December 31, 2018, which is available on the Company's website. The forward-looking statements contained in this press release are made as of the date hereof, and TSO₃ does not assume any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise unless expressly required by applicable securities laws.

-30-

Source: TSO₃ Inc.

For further information

Company Contacts:

R.M. (Ric) Rumble, President and CEO, Tel: 418 651-0003, Email: info@tso3.com
Glen Kayll, CFO, Tel: 418 651-0003, Email: info@tso3.com