2019 Quarterly Report

April, May, June

Table of Contents

Overview

General Description

TSO_3 Inc. ("TSO_3" or the "Company") was founded in June 1998 in Québec City, Canada and employed 53 people as at June 30, 2019. The Company commercializes a market ready, Food and Drug Administration ("FDA") cleared and 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 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 over 40% of the worldwide market for low-temperature sterilization equipment. The US subsidiary is used for sales and marketing, administration, engineering, warehousing and distribution of parts and consumables, laboratory services, 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 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 US since the 1950s as an alternative to steam sterilization which 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 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 while HLD does not provide the level of sterility assurance 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 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 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 ("IFU") of its STERIZONE® VP4 Sterilizer to include multi-channel flexible endoscopes of 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 (see claims);
- 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: (1) the Company's primary target market: CSSD, (2) OR, and (3) 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 demonstrates 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 over 40% of the global market of approximately 30,000 installed low temperature sterilizers[2], each having a 10-year useful life. Since their introduction, H_2O_2 sterilizers have gained a significant portion of this market, despite their relatively high cost. The TSO_3 STERIZONE® VP4 Sterilizers are competitive in this market by offering rapid return on investment and immediate advantages over other systems such as H_2O_2/plasma and 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 US and, according to the FDA, there are over 500,000 endoscopic retrograde cholangiopancreatographies ("ERCP") procedures performed annually[4].

US regulatory authorities disclosed[5] on December 10, 2018 and April 12, 2019 that contamination levels of patient-ready duodenoscopes from all manufacturers appear higher than previously expected under 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.

[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".
[5] US Food & Drug Administration Interim Report for Duodenoscope Reprocessing Studies Conducted in Real-World Settings, December 10, 2018, and updated April 12, 2019.

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 method 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 methods are not considered terminal sterilization and are used to complement the central sterilization department's sterile production. The GI 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, 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 and 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 we believe 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, OR directors, 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 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.

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 US 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. Both agreements between the Parties were set to terminate on August 1, 2018 in the event an 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 from Getinge; 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 US and Canada.

Transitioning to a Direct Sales Approach

The Company has completed the transition of 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 US and Canada. By the end of 2018, the Company had fully built out its sales structure and hired and trained a total of 11 sales executives (currently 10) which are targeting 11 territories. This 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 continues to focus on increasing market adoption of its technology. In the second quarter of 2019, TSO_3 received incremental purchase orders or commitment indications for four units of its industry-leading STERIZONE® VP4 Sterilizer and shipped four sterilizers to end-users. The Company ended the quarter with 79 sterilizers installed at end-user locations, six sterilizers that have been shipped but not yet installed, and another 27 sterilizers which are under open purchase orders or commitment indications. Adjusting for these commitments, the Company's available for sale inventory stood at 192 units at the end of the second quarter of 2019.

Sales Process

Medical facilities purchase new sterilization equipment when they need to replace existing systems or when they are building new 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, assists 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 CSSD of acute care hospitals and developing additional opportunities in the GI 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 sales, service providers and medical facilities.

Business Model and Pricing Strategy

TSO_3's 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. In the US market, 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 and $21,000.

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 in the early phase of commercialization and 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 June 30, 2019, TSO_3 had 202 patents or patent applications pending, with 107 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 the first quarter of 2019, the US Patent Office informed the Company of his intent to grant an additional patent on a core aspect of the technology embedded in the STERIZONE® Sterilization System.

During the second quarter of 2019, the Patent Office of India granted to the Company a first patent covering a critical aspect of TSO_3's STERIZONE® Sterilization System. A new divisional patent application covering an additional important aspect of the technology has also been filed in India. The Company also filed a new divisional patent application in the US to further strengthen its patent protection of the STERIZONE® Sterilization System.

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

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

Second Quarter 2019 and Recent Activities

TSO_3's direct sales force continues to focus on increasing market adoption of its technology. In the second quarter of 2019, TSO_3 received purchase orders or commitment indications for four units of its industry-leading STERIZONE® VP4 Sterilizer and shipped four sterilizers to end-users. The Company ended the quarter with 79 sterilizers installed at end-user locations, six sterilizers that have been shipped but not yet installed, and another 27 sterilizers which are under open purchase orders or commitment indications.

The Company has also invested in its contracting efforts with Integrated Delivery Networks ("IDN's") and Group Purchasing Organizations ("GPO's"). Contracting with these organizations can provide increased customer access and additional credibility.

On June 11, 2019, the Company announced that a preferred supplier agreement was signed with Capstone Health Alliance ("Capstone"), a group purchasing alliance representing close to 300 acute care facilities in 24 states across the US. Under the terms of the agreement, TSO_3 is now listed as a one of two low temperature sterilizer manufacturers contracted with Capstone to supply members with sterilizers, consumables and service at preferred prices for the duration of the contract which extends until 2021.

During the second quarter, efforts to document the terminal sterilization efficacy of the STERIZONE® VP4 Sterilizer with additional duodenoscope models and manufacturers continued. Specifically, work on Fujifilm model ED-530XT progressed with data clearly supporting the device's sterilization in development.

In July 2019, the Company received notification that FDA 510(k) clearance has been granted related to enabling changes to selected sterilizer components. These modifications do not change the intended use of the sterilizer. They do, however, extend wearable component life thus reducing service expenses while increasing product uptime.

TSO_3 recently received an Innovative Technology contract from 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 contract for TSO_3's low temperature STERIZONE® VP4 Sterilizer began August 1, 2019. The award was based on a recommendation from hospital experts who serve on one of Vizient's member-led councils.

On August 12, 2019, TSO_3 entered into a definitive arrangement agreement (the "Arrangement Agreement") pursuant to which 9402-4874 Québec Inc. (the "Purchaser"), a subsidiary of Stryker Corporation ("Stryker"), 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. The Company expects to call a special meeting of shareholders to approve the transaction (the "Special Meeting") and will issue additional information through a *Management Information Circular*. The transaction will be implemented by way of a statutory plan of arrangement under the *Business Corporations Act* (Québec) and is subject to court approval and to the approval of at least $66^{2/3}$% of the votes cast by shareholders present in person or represented by proxy at the Special Meeting. The Arrangement Agreement contains representations, warranties and covenants customary for transactions of this nature, including a prohibition against the Company soliciting or initiating any inquiries or discussion regarding any other business combination or sale of assets, subject to the fiduciary duty of the Board of Directors in the event that an unsolicited superior proposal is received by the Company and the right in favor of Stryker to match any superior proposal. A termination fee of CAD$3,076,000 is payable to Stryker in certain circumstances, including if Stryker fails to exercise its right to match in the context of a superior proposal and the Company elects to terminate the Arrangement Agreement prior to the Company's shareholders voting to approve the arrangement. The transaction is expected to be completed at the beginning of the fourth quarter.

Management Discussion and Analysis

This management discussion and analysis (MD&A) is intended to help readers assess the consolidated financial position and consolidated financial performance of TSO_3 Inc. ("TSO_3" or the "Company") for the three-month and six-month periods ended June 30, 2019 and to compare them with the three-month and six-month periods ended June 30, 2018. This information is dated August 12, 2019 and should be read in conjunction with the Interim Condensed Consolidated Unaudited Financial Statements and the accompanying notes. Unless specified otherwise, all amounts are stated in US dollars.

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

The Interim Condensed Consolidated Unaudited Financial Statements, accompanying notes and MD&A have been reviewed by the Audit 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 relationships with marketing partners and suppliers;
- The ability for the Company to deploy its 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;
- The Completion of the Arrangement Agreement with the Purchaser.

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.

In addition, risks and uncertainties inherent in the nature of the proposed transaction with the Purchaser include, without limitation, the failure of the parties to obtain the necessary shareholder and court approvals or to otherwise satisfy the conditions to the completion of the transaction; failure of the parties to obtain such approvals or satisfy such conditions in a timely manner; significant transaction costs or unknown liabilities; the ability of the Board of Directors to consider and approve, subject to compliance by the Company of its obligations in this respect under the Arrangement Agreement, a superior proposal for the Company; the failure to realize the expected benefits of the transaction; and general economic conditions. Failure to obtain the necessary shareholder and court approvals, or the failure of the parties to otherwise satisfy the conditions to the completion of the transaction or to complete the transaction, may result in the transaction not being completed on the proposed terms, or at all. In addition, if the transaction is not completed, and the Company continues as an independent entity, there are risks that the announcement of the proposed transaction and the dedication of substantial resources of the Company to the completion of the transaction could have an impact on its business and strategic relationships (including with future and prospective employees, customers, suppliers and partners), operating results and activities in general, and could have a material adverse effect on its current and future operations, financial condition and prospects. Furthermore, the failure of the Company to comply with the terms of the Arrangement Agreement may, in certain circumstances, result in it being required to pay a fee to Stryker, the result of which could have a material adverse effect on its financial position and results of operations and its ability to fund growth prospects and current operations.

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 August 12, 2019, the date of filing for the second fiscal quarter of 2019. Disclosure contained in this document is current to that date, unless otherwise stated.

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

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

Summary of Results

Periods ended June 30, 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)

Results Analysis

Below, the Company discusses the variations of certain accounts for the second quarters of 2019 and 2018 and for the six-month periods ended June 30, 2019 and 2018.

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), as well as recurring revenue from the sale of consumables ("recurring revenue") and service.

For the second quarter of 2019, revenues recorded were $0.7 million, as compared to $0.4 million in the second quarter of 2018. Revenues in the second quarter of 2019 came from the sale of sterilizers, consumables, accessories and service. The Company shipped four sterilizers to hospitals in the second quarter of 2019 under its new direct sales commercialization strategy, as opposed to none in the same quarter in 2018. For the six-month period ended June 30, 2019, revenues recorded were $1.7 million, as compared to $0.6 million for the same period in 2018. The Company shipped 13 sterilizers to hospitals in the first six-months of 2019 as opposed to none in the same period in 2018.

In the second quarter of 2019, the Company recorded revenue of $0.4 million from the sale of consumables, compared to $0.2 million in the same quarter of 2018, and recorded consumables revenue of $0.8 million in the first six-months of 2019, as compared to $0.4 million in 2018, reflecting a growing installed base of STERIZONE® VP4 Sterilizers in medical facilities as well as a transition from wholesale pricing in 2018 to higher retail pricing in 2019.

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

SUMMARY OF NET LOSS

In the second quarter of 2019, net loss and comprehensive loss totaled $4.2 million or ($0.045) per share, as compared to $4.0 million or ($0.04) per share of net loss and comprehensive loss in the second quarter of 2018. For the six-month period ended June 30, 2019, net loss and comprehensive loss totaled $7.6 million or ($0.08) per share, as compared to $8.5 million or ($0.09) per share during the same period in 2018.

In the second quarter of 2019, gross profit increased by $0.2 million as compared to the same period last year and by $0.8 million for the six-month period, mainly due to the shipment of sterilizers and to the increase of consumables revenues at retail prices rather than wholesale prices. Investments made in research and development activities were lower by $0.7 million for the second quarter and by $1.7 million for the six-month period, as compared to the same periods in 2018, while investments made in sales, general and administrative activities were lower by $0.1 million for both the second quarter the six-month period. The Company incurred non-cash financial expenses associated with the Company's outstanding debt of $1.2 million for the second quarter and $1.7 million for the six-month period (vs. nil in the comparable year ago periods).

The Company did not have debt in the first half of 2018. In August 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$0.81 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 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 loss of $0.5 million in the second quarter of 2019 and $0.2 million for the six-month period of 2019.

For the second quarter of 2019, 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 [1]

$000's	Q2	2019 Q1	Q4	Q3	Q2	2018 Q1
Net loss	**(4,220)**	(3,426)	(2,676)	(2,104)	(3,952)	(4,512)
Financial expenses (income)	**1,198**	479	(1,055)	(599)	(12)	(14)
Amortization and depreciation	**327**	269	235	270	292	315
Write-down of tangible and intangible assets	**-**	-	1,026	-	-	-
Share-based compensation expense	**276**	356	369	688	627	371
Income taxes	**33**	32	7	11	7	-
Adjusted EBITDA	**(2,386)**	(2,290)	(2,094)	(1,734)	(3,038)	(3,840)

[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) income taxes, and (7) 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 second quarter of 2019, total expenses denominated in Canadian dollars were CAD$1.8 million, as compared to CAD$2.3 million in the second quarter of 2018. The average USD/CAD foreign exchange rate in the second quarter of 2019 was 0.7476 as compared to 0.7747 in 2018, which is reflected in a decrease in CAD denominated expenses of 3% year over year upon conversion to USD.

In the second quarter of 2019, total cost of sales related expenses denominated in Canadian dollars were CAD$0.4 million (same amount in the second quarter of 2018). Total research and development expenses denominated in Canadian dollars were CAD$0.3 million in the second quarter of 2019, as compared to CAD$0.7 million in the second quarter of 2018, and total SG&A expenses denominated in Canadian dollars were CAD$1.1 million, as compared to CAD$1.2 million in the second quarter of 2018.

From a quarterly sequential perspective, the USD/CAD foreign exchange rate in the second quarter of 2019 was 0.7476 as compared to 0.7522 in the first quarter of 2019, which is reflected in a decrease in CAD denominated expenses of 1% quarter over quarter upon conversion to USD.

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 three-month period ended June 30, 2019, cost of sales amounted to $0.5 million, as compared to $0.3 million for the same period in 2018. For the six-month period ended June 30, 2019, cost of sales equaled $1.1 million, as compared to $0.8 million for the same period in 2018. In the first and second

quarters of 2019, TSO_3 shipped nine and four sterilizers respectively to hospitals as opposed to none in each of the first two quarters of 2018.

Gross profit was $0.2 million in the second quarter of 2019, as compared to $0.1 million in the second quarter of 2018. For the six-month period ended June 30, 2019, gross profit was $0.6 million, as compared to negative ($0.2) million for the same period in 2018. Gross profit in the first and second quarter of 2019 increased as a result of increased sterilizer sales and consumables revenues. Also, gross profits increased as sales in 2019 were at direct-to-user retail prices rather than the wholesale prices at which we sold to our distributor in the first and second quarters of 2018.

Research and Development

For the quarter ended June 30, 2019, research and development expenses were $0.8 million, as compared to $1.5 million for the same period in 2018. For the six-month period ended June 30, 2019, these expenses were $1.5 million, as compared to $3.2 million for the same period in 2018. For the second quarter of 2019 and for the six-month period of 2019, the Company reduced by $0.6 million and $1.3 million, respectively, expenses related to salary, share-based compensation, travelling expenses and professional fees, and by $0.1 million and $0.4 million, respectively, expenses related to material purchases, equipment maintenance and depreciation.

The Company reduced its research and development expenditures as it refocused more of its investments on selling and marketing activities.

Selling, General and Administrative (SG&A)

Selling, general and administrative (SG&A) expenses include costs associated with marketing, sales, service and administration. SG&A expenses were $2.4 million for the quarter ended June 30, 2019, as compared to $2.5 million for the same period in 2018. For the six-month period ended June 30, 2019, these expenses were $5.0 million, as compared to $5.1 million in 2018.

During the second quarter and first six-months of 2019, as compared to the same periods in 2018, the Company incurred an additional $0.2 million and $0.3 million, respectively, in marketing, sales and service expenses. The second quarter increase was offset by a $0.4 million decrease in general and administration expenditures, as compared to the same period in 2018, relating to salary, share-based compensation and travel, offset by an increase of $0.1 million in professional fees. The six-month period increase was offset by a $0.4 million decrease in salary, travel and professional fees as compared to the same period in 2018.

Share-based Compensation Expense

For the quarter ended June 30, 2019, non-cash share-based compensation expense amounted to $0.3 million, as compared to $0.6 million for the same period in 2018. For the six-month period ended June 30, 2019, these expenses amounted to $0.6 million, as compared to $1.0 million for the same period in 2018.

As at June 30, 2019, the Company had 7.3 million stock options outstanding, as compared to 7.6 million in 2018.

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

Financial Expenses (Income)

For the quarter and six-month period ended June 30, 2019, financial expenses were $1.2 million and $1.7 million, respectively, as compared to minimal financial income for the same periods in 2018. The Company recorded non-cash losses on the Company's Convertible Note embedded derivative of

$0.5 million in the second quarter of 2019 and $0.2 million for the six-month period of 2019, and by accrued interest expense related to the $20.0 million debt financing obtained on August 1, 2018 of $0.7 million in the second quarter of 2019 and $1.4 million for the six-month period of 2019.

Financial Position Analysis

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

	June 30, 2019 $	December 31, 2018 $
Cash and cash equivalents	**9,198**	12,961
Accounts receivable and current tax assets	**563**	1,607
Inventories	**3,378**	3,534
Property, plant and equipment	**2,075**	2,039
Intangibles assets	**1,770**	1,781
Accounts payable, accrued liabilities, current and deferred tax liabilities	**1,874**	1,909
Warranty provision	**291**	273
Deferred revenues	**210**	103
Lease liability (short and long term)	**352**	-
Debt and embedded derivative	**19,717**	18,030
Equity (deficit)	**(5,146)**	1,868

Liquid Assets

As at June 30, 2019, cash and cash equivalents amounted to $9.2 million, as compared to $13.0 million as at December 31, 2018. See the Cash Flow Analysis section below for a discussion of the key drivers of the change in cash and cash equivalents over this period.

Accounts Receivable and Current Income Tax Assets

As at June 30, 2019, accounts receivable and current tax assets amounted to $0.6 million, as compared to $1.6 million as at December 31, 2018. As at June 30, 2019, accounts receivables related to customer receivables, R&D and sales tax credits.

Inventories

As at June 30, 2019, inventories amounted to $3.4 million, as compared to $3.5 million as at December 31, 2018.

	June 30, 2019 $	December 31, 2018 $
Raw Materials	**874**	925
Work in Progress	**16**	74
Finished Goods	**2,488**	2,535
	3,378	3,534

Property, Plant and Equipment

Property, plant and equipment, net of depreciation, amounted to $2.1 million as at June 30, 2019, $0.1 million higher than at December 31, 2018. During the six-month period, TSO_3 acquired $0.2 million in property, plant and equipment. Depreciation was $0.5 million during the six-month period of 2019. As a result of initially applying IFRS 16, Leases, in relation to leases that were previously classified as operating leases, the Company recognised $0.4 million of right-of-use assets as at June 30, 2019.

Intangible Assets

Intangible assets, net of amortization, amounted to $1.8 million as at June 30, 2019, comparable to December 31, 2018. In the first six-months of 2019 the Company invested $0.1 million in patents which was offset by $0.1 million of amortization.

Accounts Payable, Accrued Liabilities, Current and Deferred Tax Liabilities

As at June 30, 2019, accounts payable, accrued liabilities, current and deferred income tax liabilities amounted to $1.9 million, comparable to December 31, 2018.

Deferred Revenues

As at June 30 2019, deferred revenues include the unamortized portion of prepaid service contracts covering a part of the installed base of STERIZONE® VP4 Sterilizers.

Lease Liability

As a result of initially applying IFRS 16, Leases, in relation to leases that were previously classified as operating leases, the Company recognised $0.4 million of lease liabilities as at June 30, 2019.

Debt and embedded derivative

As at June 30, 2019, debt amounted to $18.2 million and the embedded derivative amounted to $1.5 million, for a total of $19.7 million. This related to a $20.0 million financing entered into on August 1, 2018. The Company is required to 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 loss of $0.5 million in the second quarter of 2019 and $0.2 million for the six-month period of 2019.

Shareholders' Equity

As at June 30, 2019, Shareholders' Equity amounted to negative $5.1 million, as compared to positive $1.9 million as at December 31, 2018. The variation is mainly the result of the absorption of the operating deficit incurred during the three and six-month periods ended June 30, 2019, partially offset by $0.6 million in share-based compensation expense recognized during the same period.

As at June 30, 2019 the number of outstanding shares was 93,564,808 (93,465,238 as at December 31, 2018). As of August 12, 2019, the number of outstanding shares was 93,639,889.

Cash Flows Analysis

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

		Six months
	2019	2018
	$	$
Operating Activities	**(3,683)**	(7,925)
Investing Activities	**(112)**	4,912
Financing Activities	**32**	25

Operating Activities

In the second quarter and the first half of 2019, the Company used approximately $2.4 million and $4.8 million, respectively, in cash from operations, excluding non-cash working capital, as compared to $3.1 million and $6.9 million, respectively, in the same period in 2018. The improvement is due to the increase in sales and decrease in expenses. In the second quarter and the first half of 2019, the Company generated cash inflows of $0.4 million and $1.1 million, respectively, from changes in non-cash working capital, as compared to cash outflows of $0.1 million and $1.1 million in the comparable periods of 2018. Non-cash working capital cash generation came predominantly from the decrease in accounts receivable balances noted above.

Investing Activities

For the six-month period of 2019, investing activities had $0.1 million in cash outflows, as compared to $4.9 million in cash inflows in the same period in 2018. The variance resulted from the purchase of $0.1 million of property, plant and equipment and intangible assets in 2019, as compared to $5.1 million of cash inflows generated from the disposal (net) of short term investments, offset by $0.2 million used to purchase property, plant and equipment and intangible assets in the same period in 2018. In the second quarter of 2019, the Company used $0.1 million to purchase property, plant and equipment and intangible assets, as compared to $2.8 million generated from the disposal (net) of short term investments, offset by $0.1 million used to purchase property plant and equipment and intangible assets in the same period in 2018.

Financing Activities

For the second quarter and six-month periods ended June 30, 2019 and 2018, cash generated from financing activities was immaterial.

Summary of Quarterly Results

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

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

		2019				2018		2017
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Revenues	**748**	960	1,122	782	373	255	5,780	5,105
Net loss	**(4,220)**	(3,426)	(2,676)	(2,104)	(3,952)	(4,512)	(1,449)	(1,771)
Net loss per Share (basic, in $)	**(0.045)**	(0.04)	(0.03)	(0.02)	(0.04)	(0.05)	(0.02)	(0.02)

Segmented Information

The Company has one operating segment.

	Second quarter		**Six months**	
Revenues	**2019**	2018	**2019**	2018
	$	$	**$**	$
Canada and Worldwide	**209**	101	**383**	152
United States	**539**	272	**1,325**	476
	748	373	**1,708**	628

	June 30, 2019			December 31, 2018		
	Inventories	**Property, Plant and Equipment**	**Intangible Assets**	Inventories	Property, Plant and Equipment	Intangible Assets
Canada and Worldwide	**974**	**990**	**1,764**	1,382	813	1,772
United States	**2,404**	**1,085**	**6**	2,152	1,226	9
	3,378	**2,075**	**1,770**	3,534	2,039	1,781

For the second quarter of 2018, revenue from Getinge represented 93% of the Company's total revenues in conjunction with Getinge and TSO_3's distribution agreements (none for the same period in 2019).

Off-Balance Sheet Arrangement

The Company made no off-balance sheet arrangements during the second quarter of 2019 other than purchase orders issued in the normal course of business.

Additional Disclosure – Unrecorded Tax Assets

The Company has accumulated a substantial amount of losses, unclaimed expenses and tax credits that could be claimed in the future to reduce income taxes. The related deferred income tax assets will be recorded on the Condensed Consolidated Financial Statements only when the Company concludes that these tax assets will probably be materialized by shielding profits from taxes, or otherwise. If the Company had reached this conclusion on June 30, 2019, $26.7 million in tax assets would have been recorded based on an effective rate of 15% for federal taxes and 11.5% for provincial taxes ($25.7 million as at December 31, 2018 and same effective tax rate).

Financial Instruments

The reader is refered to note 7 of the Company's Annual Audited Consolidated Financial Statement for the year ended December 31, 2018 and note 6 of the Interim Condensed Consolidated Unaudited Financial Statements for the quarter ended June 30, 2019 for a detailed presentation of financial instruments.

Capital Resources

The Company needs capital primarily to finance production, research and development, selling, general and administrative expenses, working capital and capital expenditures. The Company's capital is comprised of share capital and a 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 presented in the Annual Management Discussion and Analysis of the Company for the year ended December 31, 2018). 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 and note 2 of the Interim Condensed Consolidated Unaudited Financial Statements for the quarter ended June 30, 2019 for a detailed presentation of accounting policies, critical accounting judgments, key sources of estimation uncertainty and future accounting changes.

Risk Factors

The Company operates in industry segments that have a variety of rish factors and uncertainties. TSO_3 hereby incorporates by reference the risks and uncertainties described in the Annual Management Discussion and Analysis of the Company for the year ended December 31, 2018 which reflect, to its knowledge, the material risks and uncertainties the Company faced as at June 30, 2019.

In addition to those risks and uncertainties referred to above, the Company expects that it will continue incurring losses and consuming cash for the foreseeable future and therefore continues to require cash for operations. With limited revenue from operations, the Company will continue to have negative cash flows from its operating activities and is expected to need to raise additional capital, the availability of which cannot be assured.

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 June 30, 2019.

Also, the CEO and the CFO have designed ICFR, or have caused it to be designed under their supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Interim Financial Statements for financial reporting purposes in accordance with IFRS as of June 30, 2019.

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 ended June 30, 2019 that have materially affected, or are reasonably likely to materially affect, the internal controls over financial reporting.

INTERIM CONDENSED CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS

For the three-month and six-month periods ended June 30, 2019 and 2018

Interim Condensed Consolidated Statements of Loss and Comprehensive Loss

Three-month and six-month periods ended June 30, 2019 and 2018 (Unaudited, in thousands of US dollars, except per share amounts)

		Second quarter		Six months	
		2019	2018	**2019**	2018
	Notes	**$**	$	**$**	$
Revenues	**3**	**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)	**4**	**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 total 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	**17**	**(0.045)**	(0.04)	**(0.08)**	(0.09)
Basic and diluted net comprehensive loss per share	**17**	**(0.045)**	(0.04)	**(0.08)**	(0.09)

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

Interim Condensed Consolidated Statements of Changes in Equity

(Unaudited, in thousands of US dollars)

	Notes	Share Capital $	Reserve-Share-Based Compen-sation $	Deficit $	Accumu-lated Other Compre-hensive Loss $	Total $
Balance at January 1, 2018		111,215	6,574	(103,186)	(1,712)	12,891
Options exercised	13	39	(14)	-	-	25
Share-based compensation	14	-	998	-	-	998
Net loss for the period		-	-	(8,464)	-	(8,464)
Balance at June 30, 2018		111,254	7,558	(111,650)	(1,712)	5,450
Balance at July 1, 2018		111,254	7,558	(111,650)	(1,712)	5,450
Options exercised	13	216	(75)	-	-	141
Share-based compensation	14	-	1,057	-	-	1,057
Net loss for the period		-	-	(4,780)	-	(4,780)
Balance at December 31, 2018		111,470	8,540	(116,430)	(1,712)	1,868
Balance at January 1, 2019		111,470	8,540	(116,430)	(1,712)	1,868
Options exercised	13	-	-	-	-	-
Share-based compensation	14	-	632	-	-	632
Net loss for the period		-	-	(7,646)	-	(7,646)
Balance at June 30, 2019		111,470	9,172	(124,076)	(1,712)	(5,146)

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

Interim Condensed Consolidated Statements of Financial Position

(Unaudited, in thousands of US dollars)

	Notes	June 30, 2019 $	December 31, 2018 $
Current Assets			
Cash and Cash Equivalents	6	**9,198**	12,961
Accounts Receivable	6, 7	**563**	1,591
Inventories	8	**3,378**	3,534
Current Tax Assets		**-**	16
Prepaid Expenses		**314**	261
		13,453	18,363
Non-current Assets			
Property, Plant and Equipment	2, 9	**2,075**	2,039
Intangible Assets	10	**1,770**	1,781
		3,845	3,820
		17,298	22,183
Current Liabilities			
Accounts Payable and Accrued Liabilities	6	**1,774**	1,858
Warranty Provision		**291**	273
Current Tax Liabilities		**49**	-
Lease Liabilities	2	**147**	-
Deferred Revenues	11	**210**	103
		2,471	2,234
Non-current Liabilities			
Defered Tax Liabilities		**51**	51
Lease Liabilities	2	**205**	-
Debt	6, 12	**18,181**	16,711
Embedded Derivative	6, 12	**1,536**	1,319
		22,444	20,315
Equity			
Share Capital	13	**111,470**	111,470
Reserve – Share-based Compensation	14	**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

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

Interim Condensed Consolidated Statements of Cash Flows

Periods ended June 30, 2019 and 2018 (Unaudited, in thousands of US dollars)

	Notes	Six months 2019 $	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	14	**632**	998
Capitalized interest on long term debt	4, 12	**1,438**	-
Loss on re-measurement at fair-value on embedded derivative	12	**217**	-
Investment income	4	**(82)**	(62)
		(4,838)	(6,921)
Changes in non-cash operating working capital items	15	**1,073**	(1,087)
Interest received	4	**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	9	**(8)**	(134)
Acquisition of intangible assets	10	**(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	12	**32**	-
Options exercised	13	**-**	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

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

Notes to the Interim Condensed Consolidated Financial Statements

Periods ended June 30, 2019 and 2018 (Unaudited, in thousands of US dollars, unless otherwise indicated)

1. Description of Business

TSO_3 ("TSO_3" or the "Company") exists under the Business Corporations Act (Québec). The Company's activities encompass the sale, production, maintenance, research, development and licensing of sterilization processes, related consumable supplies and accessories. 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

Basis of Preparation

The Interim condensed consolidated unaudited financial statements ("financial statements") are prepared in compliance with International Accounting Standard 34 – Interim Financial Reporting ("IAS 34"). Accordingly, certain information and footnote disclosure normally included in annual financial statements prepared in accordance with International Financial Reporting Standards (IFRS) and applicable as at June 30, 2019 have been omitted or condensed. As such, these financial statements should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2018. The financial statements were prepared using the same basis of presentation, accounting policies and methods of computation as outlined in note 2, *accounting policies* in our consolidated financial statements for the year ended December 31, 2018, except for the adoption of new and amended standards as set out below. The financial statements do not include all of the notes required in annual financial statements. These financial statements have not been reviewed by an auditor.

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 to Getinge 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 US 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 had been used to repurchase 230 units and related accessories from Getinge.

Notes to the Interim Condensed Consolidated Financial Statements

Periods ended June 30, 2019 and 2018 (Unaudited, in thousands of US dollars, unless otherwise indicated)

2. Accounting Policies (cont'd)

Going Concern (cont'd)

As of June 30, 2019, the Company had positive working capital of $11.0 million, an accumulated deficit of $124.1 million, and a net loss of $7.6 million for the six-month period ended June 30, 2019. 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.

On August 12, 2019, TSO_3 entered into a definitive arrangement agreement (the "Arrangement Agreement") pursuant to which 9402-4874 Québec Inc., a subsidiary of Stryker Corporation ("Stryker"), 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 Note 19, Subsequent Event).The transaction is subject to court approval and the approval of at least $66^{2/3}$% of the votes cast by shareholders present in person or represented by proxy at a Special Meeting.

In the event the Company does not complete this transaction or achieve its expected sales, the Company may be required to reduce or delay operating expenses as deemed appropriate 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.

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. Based on the Company's expected rate of cash consumption over the next twelve months, in the event that 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. Unless the Company succeeds in raising additional capital or successfully increases cash generated from operations, the Company anticipates that it will be unable to continue operations through the end of the last quarter of 2019 without violating an existing covenant on the debt with its lenders (see Note 12). As a result of the Company's historical losses and financial condition, there is substantial doubt about the Company's ability to continue as a going concern.

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 to reduce expenditures. While TSO_3 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.

Notes to the Interim Condensed Consolidated Financial Statements

Periods ended June 30, 2019 and 2018 (Unaudited, in thousands of US dollars, unless otherwise indicated)

2. Accounting Policies (cont'd)

New standard adopted by the Company

On January 1, 2019, the Company adopted the new IFRS 16 standard, Leases, issued by the IASB, which supersedes 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 recognition, measurement and disclosure of leases and require lessee to account for most leases under a single on-balance sheet method. 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, 2019). Upon adoption of the standard, the Company elected to use the recognition exemption for leases for which term ends within 12 months of the initial application date of IFRS 16 and leases for which the underlying amount is of low value. The Company recognises the lease payments associated with these low-value assets as an expense on a straight-line basis over the lease term. The new accounting policies section is described below.

On transition to IFRS 16, the Company recognised additional right-of-use assets and additional lease liabilities. The impact on transition is summarised below:

	January 1, 2019 $
Right-of-use assets presented in property, plant and equipment	425
Lease liabilities	425

When measuring lease liabilities for leases that were classified as operating leases, the Company discounted lease payments using its incremental borrowing rate at January 1, 2019. The weighted average rate applied is 4.42%.

	January 1, 2019 $
Operating lease commitment at December 31, 2018 as disclosed in the Company's consolidated financial statements	416
Discounted using the incremental borrowing rate at January 1, 2019	401
Recognition exemption for leases of low-value assets	(33)
Recognition exemption for leases with less than 12 months of lease term at transition	(95)
Services contracts excluded from IFRS 16 application	(2)
Extension options reasonably certain to be exercised	154
Lease liabilities recognised at January 1, 2019	425

As a result of initially applying IFRS 16, in relation to the leases that were previously classified as operating leases, the Company recognised $0.4 million of right-of-use assets and $0.4 million of lease liabilities as at June 30, 2019.

Also, in relation to those leases under IFRS 16, the Company has recognised depreciation and interest costs, instead of operating lease expense. During the three-month and six-month periods ended June 30, 2019, the Company recognised $0.04 million and $0.08 million of depreciation charges and $0.01 million and $0.01 million respectively of interest costs from these leases.

Notes to the Interim Condensed Consolidated Financial Statements

Periods ended June 30, 2019 and 2018 (Unaudited, in thousands of US dollars, unless otherwise indicated)

2. Accounting Policies (cont'd)

New accounting policies applicable starting January 1, 2019

Leases

The Company recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost which includes the amount of the initial lease liability, initial direct costs, any lease payments made at or before the commencement date, less incentives received. The right-of-use asset is subsequently measured at cost less any accumulated depreciation and impairment losses and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease, or, if that rate cannot be readily determined, the Company incremental borrowing rate.

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by the lease payment made. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

The Company has applied judgement to determine the lease term for some lease contracts in which it is a lessee that include renewal options. The assessment of whether the Company is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and right-of-use assets recognised.

3. Revenues

	Second Quarter		Six Months	
	2019	2018	**2019**	2018
	$	$	**$**	$
Sterilizers	**212**	-	**464**	-
Accessories	**19**	-	**133**	-
Consumables	**400**	190	**837**	362
Service	**117**	183	**274**	266
	748	373	**1,708**	628

Notes to the Interim Condensed Consolidated Financial Statements

Periods ended June 30, 2019 and 2018 (Unaudited, in thousands of US dollars, unless otherwise indicated)

4. Financial Expenses (Income)

	Second Quarter		Six months	
	2019	2018	**2019**	2018
	$	$	**$**	$
Financial Income				
Investment Income	**(36)**	(34)	**(82)**	(62)
	(36)	(34)	**(82)**	(62)
Financial Expenses				
Bank Charges	**19**	18	**40**	32
Interest on long term debt	**724**	-	**1,438**	-
Loss on re-measurment at fair-value on embedded derivative	**472**	-	**217**	-
Interest on lease liability	**3**	-	**8**	-
Financing fees	**4**	-	**32**	-
Foreign Exchange Loss	**12**	4	**24**	4
	1,234	22	**1,759**	36
Total Financial Expenses (Income)	**1,198**	(12)	**1,677**	(26)

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

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

	Second Quarter		Six months	
	2019	2018	**2019**	2018
	$	$	**$**	$
Salary and Other Benefits	**1,407**	1,971	**2,873**	4,239
Share-based compensation expense	**276**	627	**632**	998
Depreciation of Property, Plant and Equipment	**267**	242	**477**	509
Amortization of Intangible Assets	**60**	50	**119**	98
Research and Development Tax Credits	**(6)**	(33)	**(51)**	(66)
Warranty recorded in cost of sales	**20**	-	**110**	-

6. Financial Instruments

Cash and Cash Equivalents

	June 30, 2019	December 31, 2018
	$	$
Cash and cash equivalents	**9,198**	12,961

Accounts Receivable

	June 30, 2019	December 31, 2018
	$	$
Accounts Receivable	**563**	1,591

Notes to the Interim Condensed Consolidated Financial Statements

Periods ended June 30, 2019 and 2018 (Unaudited, in thousands of US dollars, unless otherwise indicated)

6. Financial Instruments (cont'd)

Accounts Payable and Accrued Liabilities

	June 30, 2019 $	December 31, 2018 $
Accounts Payable and Accrued Liabilities	**1,774**	1,858

Debt and Embedded Derivative

	June 30, 2019 $	December 31, 2018 $
Debt	**18,181**	16,711
Embedded Derivative	**1,536**	1,319

7. Accounts Receivable

	June 30, 2019 $	December 31, 2018 $
Receivables from Clients and Related Parties	**459**	1,347
Government Credits Receivable	**104**	244
	563	1,591

There were no bad debt allowances as at June 30, 2019 nor as at December 31, 2018.

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:

	June 30, 2019 $	December 31, 2018 $
Current	**365**	690
Less than 30 days past due	**39**	311
30 to 60 days past due	**8**	16
More than 60 days past due	**47**	330
	459	1,347

8. Inventories

As at June 30, 2019, inventories amounted to $3.4 million, as compared to $3.5 million as at December 31, 2018.

	June 30, 2019 $	December 31, 2018 $
Raw Materials	**874**	925
Work in Progress	**16**	74
Finished Goods	**2,488**	2,535
	3,378	3,534

Notes to the Interim Condensed Consolidated Financial Statements

Periods ended June 31, 2019 and 2018 (Unaudited, in thousands of US dollars, unless otherwise indicated)

9. Property, Plant and Equipment

During the six-month period ended June 30, 2019, the Company acquired a total of $0.01 million in property, plant and equipment. During the year ended December 31, 2018, the Company acquired $0.1 million in equipment and tools, sterilizers used internally and externally, computer equipment and leasehold improvements.

10. Intangible Assets

During the six-month period ended June 30, 2019, the Company acquired $0.1 million of new patents and software. During the year ended December 31, 2018, the Company acquired $0.2 million in patents and software.

11. Deferred Revenues

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

12. Debt

	June 30, 2019 $	December 31, 2018 $
Convertible note of $15.0 million, non-callable, convertible into common shares of the Company at a price of US$0.81 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**	10,783
Imputed Interest	**2,098**	958
	12,881	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**	5,000
Imputed Interest	**550**	252
	5,550	5,252
Less financing fees	**(250)**	(282)
	18,181	16,711

Notes to the Interim Condensed Consolidated Financial Statements

Periods ended June 30, 2019 and 2018 (Unaudited, in thousands of US dollars, unless otherwise indicated)

12. Debt (cont'd)

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.

	June 30, 2019 $	December 31, 2018 $
Embedded Derivative reported as long-term liability as at August 1, 2018	**4,217**	4,217
Gain on re-measurement at fair-value on embedded derivative	**(2,681)**	(2,898)
Embedded Derivative reported as long-term liability	**1,536**	1,319

(Expense) income associated with the embedded derivative consists of:

	June 30, 2019 $	December 31, 2018 $
(Loss) gain on re-measurement at fair-value on embedded derivative	**(217)**	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 June 30, 2019, these covenants were met by the Company.

13. Share Capital

Authorized:

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

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

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

Issued:

	June 30, 2019		December 31, 2018	
Issued and Paid	**Number of Common Shares**	**$**	Number of Common Shares	$
Balance at Beginning	**93,465,238**	111,470	92,854,304	111,215
DSUs, RSUs and Options Exercised	**99,570**	-	610,934	255
Balance at the End	**93,564,808**	111,470	93,465,238	111,470

During the three-month period ended June 30, 2019, pursuant to the Company's 2016 Stock Incentive Compensation Plan, 99,570 DSUs and RSUs were exercised for no cash consideration. During the year ended December 31, 2018, 610,934 DSUs, RSUs and options were exercised for an aggregate cash consideration of $0.3 million.

Notes to the Interim Condensed Consolidated Financial Statements

Periods ended June 30, 2019 and 2018 (Unaudited, in thousands of US dollars, unless otherwise indicated)

13. Share Capital (cont'd)

Employee Stock Purchase Plan

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

Deferred Share Unit (DSU) and Restricted Share Unit (RSU) 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 are payable on the termination of service of the participant and RSUs are generally payable after three years of grant or as elected by 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 June 30, 2019, 0.4 million DSUs and RSUs were awarded (none as at June 30, 2018). During the six-month period ended June 30, 2019, TSO_3 recorded a compensation expense of $0.1 million ($0.03 million as at June 30, 2018) for its deferred share unit and restricted share unit plan.

14. 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 9.4 million as at June 30, 2019, (9.3 million as at December 31, 2018). The options awarded pursuant to this plan generally vest over a three-year period and may be exercised within a maximum of 10 years from the date of award.

During the six-month period ended June 30, 2019, the Company awarded 0.1 million stock options, (0.4 million for the same period in 2018) at a weighted average exercise price per stock option of $0.28 or CAD$0.37 ($0.92 or CAD$1.21 for the same period in 2018). The weighted average fair value of these stock options was $0.18 or CAD$0.23 for the six-month period ended June 30, 2019 ($0.55 or CAD$0.73 for the same period in 2018).

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 $0.5 million for the six-month period ended June 30, 2019 ($1.0 million for the same period in 2018) presented in the Interim Condensed Consolidated Statements of Loss and Comprehensive Loss in the functions based on the option holders.

Notes to the Interim Condensed Consolidated Financial Statements

Periods ended June 30, 2019 and 2018 (Unaudited, in thousands of US dollars, unless otherwise indicated)

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

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

US$	**June 30, 2019**	December 31, 2018
Weighted Average Share Price	**$0.28**	$0.83
Exercise Price	**$0.28**	$0.83
Risk Free Interest Rate	**1.54%**	2.11%
Estimated Share Price Volatility	**65%**	60%
Expected Life	**7 years**	7 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**	**June 30, 2019 Weighted Average Exercise Price $**	Number	December 31, 2018 Weighted Average Exercise Price $
Outstanding at beginning	**7,273,163**	**1.46**	7,909,953	1.71
Granted	**523,620**	**0.28**	1,520,979	0.59
Exercised	**(195,223)**	**-**	(610,934)	0.29
Expired	**(14,000)**	**0.28**	(57,666)	0.96
Forfeited	**(238,772)**	**1.23**	(1,489,169)	1.92
Outstanding at end	**7,348,788**	**1.41**	7,273,163	1.46
Exercisable at end	**4,419,906**	**1.46**	4,013,883	1.53

The following table summarizes certain information regarding the stock options of the Company as at June 30, 2019:

	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)	**763,970**	**Undetermined**	**350,433**	**Undetermined**
$0.01 to $0.80	**974,667**	**7.89**	**299,667**	**4.51**
$0.81 to $1.69	**2,666,401**	**5.22**	**2,316,066**	**4.89**
$1.70 to $2.89	**2,943,750**	**8.01**	**1,453,740**	**7.86**
	7,348,788	**6.87**	**4,419,906**	**5.91**

Notes to the Interim Condensed Consolidated Financial Statements

Periods ended June 30, 2019 and 2018 (Unaudited, in thousands of US dollars, unless otherwise indicated)

14. 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

15. Additional Information Relating to Cash Flows

	Six months	
	2019 $	2018 $
Changes In Non-Cash Operating Working Capital Items		
Decrease (Increase) in Assets		
Accounts Receivable	**1,028**	(76)
Inventories	**156**	(625)
Prepaid Expenses	**(53)**	(153)
Increase (Decrease) in Liabilities		
Accounts Payable and Accrued Liabilities	**(84)**	(536)
Provision for repurchase	**-**	524
Income Tax Payable	**65**	(68)
Warranty Provision	**18**	(169)
Deferred Revenues	**107**	16
Increase in Assets Transferred		
Inventories transferred to Property, Plant and Equipment	**(164)**	-
	1,073	(1,087)
Reseach and Development Tax Credits Received	**165**	-

16. Segmented Information

The Company is structured as a single operating segment.

	Second Quarter		Six months	
Revenues	**2019 $**	2018 $	**2019 $**	2018 $
Canada and Worldwide	**209**	101	**383**	152
United States	**539**	272	**1,325**	476
	748	373	**1,708**	628

Notes to the Interim Condensed Consolidated Financial Statements

Periods ended June 30, 2019 and 2018 (Unaudited, in thousands of US dollars, unless otherwise indicated)

16. Segmented Information (cont'd)

	June 30, 2019			December 31, 2018		
	Inventories	**Property, Plant and Equipment**	**Intangible Assets**	Inventories	Property, Plant and Equipment	Intangible Assets
Canada and Worldwide	**974**	**990**	**1,764**	1,382	813	1,772
United States	**2,404**	**1,085**	**6**	2,152	1,226	9
	3,378	**2,075**	**1,770**	3,534	2,039	1,781

For the second quarter of 2018, revenue from Getinge represented 93% of the Company's total revenues in conjunction with Getinge and TSO_3's distribution agreements (none for the same period in 2019).

17. Loss per Share

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

	Second Quarter		Six months	
In thousands of US $, except per share amounts	**2019**	2018	**2019**	2018
Net loss				
Basic and Diluted	**(4,220)**	(3,952)	**(7,646)**	(8,464)
Number of Shares				
Weighted Average Number of Outstanding Shares	**93,517**	92,891	**93,491**	92,884
Number of Shares				
Weighted Average Number of Outstanding Shares Diluted(1)	**93,517**	92,891	**93,491**	92,884
Loss per Share				
Basic and Diluted	**(0.045)**	(0.04)	**(0.08)**	(0.09)
Comprehensive loss per Share Basic and Diluted	**(0.045)**	(0.04)	**(0.08)**	(0.09)

1) If the Company had a profit, the weighted average number of outstanding shares diluted would have been increased by 0.9 million as of June 30, 2019 (1.4 million as of June 30, 2018) for the calculation of the diluted net loss per share.

18. 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.

The Company has a contractual commitment to pay bonuses to certain key management personnel in the event that the Company is sold or refinanced.

The Company also has a contractual commitment that result from the Arrangement Agreement described in note 19 to pay a termination fee to Stryker in certain circumstances.

Notes to the Interim Condensed Consolidated Financial Statements

Periods ended June 30, 2019 and 2018 (Unaudited, in thousands of US dollars, unless otherwise indicated)

19. Subsequent event

On August 12, 2019, TSO_3 entered into the Arrangement Agreement pursuant to which 9402-4874 Québec Inc., a subsidiary of Stryker, will acquire all of the issued and outstanding 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.The Company expects to call a special meeting of shareholders to approve the transaction (the "Special Meeting") and will issue additional information through a *Management Information Circular*. The transaction will be implemented by way of a statutory plan of arrangement under the *Business Corporations Act* (Québec) and is subject to court approval and to the approval of at least $66^{2/3}$% of the votes cast by shareholders present in person or represented by proxy at the Special Meeting. The Arrangement Agreement contains representations, warranties and covenants customary for transactions of this nature, including a prohibition against the Company soliciting or initiating any inquiries or discussion regarding any other business combination or sale of assets, subject to the fiduciary duty of the Board of Directors in the event that an unsolicited superior proposal is received by the Company and the right in favor of Stryker to match any superior proposal. A termination fee of CAD$3,076,000 is payable to Stryker in certain circumstances, including if Stryker fails to exercise its right to match in the context of a superior proposal and the Company elects to terminate the Arrangement Agreement prior to the Company's shareholders voting to approve the arrangement. The transaction is expected to be completed at the beginning of the fourth quarter. If the transaction is completed, the Company will cease to be a public issuer.

20. Approval of Financial Statements

The interim condensed consolidated financial statements were approved by the Board of Directors on August 12, 2019.