2016 Quarterly Report

July-August-September

Creating the Improved Standard in Healthcare Sterile Reprocessing™

Contents

Message from the Chief Executive Officer

Dear Valued Shareholders,

The third quarter of 2016 can be summed up in three words, “Steady Forward Progress”. We continue to make steady forward progress on our key near term operating objectives – selling our STERIZONE® VP4 Sterilizers, helping Getinge Infection Control, our exclusive distribution partner, sell sterilizers into North American hospitals and prepare for its European launch, building our sales, marketing and operating infrastructure to prepare for future growth, and facilitating the entry into the GI market.

During the third quarter we assembled and shipped 30 sterilizers to Getinge and recorded revenues of $3.5 million for the quarter. So far this year we have recorded $9.6 million in revenue, which represents a new high watermark for the Company. Thanks in part to the contribution of these revenues; in the quarter we used only $1 million of our US$21 million in cash balances for operations despite making significant investments in our future.

So what have we been up to?

Our primary goal remains to support North American end-user adoption of the STERIZONE® VP4 Sterilizer while preparing for its international introduction. To this end, the Company allocated its resources to sales and technical support toward the existing low temperature sterilizer market. This support included multiple end-user presentations throughout the United States, Canada, China, Europe and Australia, both with and without Getinge and we were pleased with our progress., particularly considering this past quarter is normally associated with the vacation season.

We led sterilizer installation training at several locations, and made progress establishing supply chain processes with Getinge that are required to support an increased demand for consumables. The installed base of STERIZONE® VP4 Sterilizers is growing and end-users are telling us that our sterilizer is meeting or exceeding expectations, and utilization from these US accounts continues to be in excess of our original estimate of three cycles per day per machine.

In the quarter we also invested in our Myrtle Beach technical facility. This additional laboratory space will be primarily dedicated to expanding our device Compatibility Testing Service (CTS) in support of documenting an increased number of instruments and loads that may be processed in our sterilizer.

Also, we announced that the U.S. Food and Drug Administration (the “FDA”) had cleared our expanded indications for use (IFU’s) of our STERIZONE® VP4 Sterilizer – making our sterilizer the only sterilizer validated to terminally sterilize large (3.5 meter long and four or fewer channels), multi-channeled flexible endoscopes such as video-colonoscopes and gastroscopes. These extended claims further expand our technology leadership – offering enhanced patient protection in applications where terminal sterilization was not previously possible.

While this clearance is supportive of our next generation technology, we aren’t done yet. During the quarter we continued rigorous scientific testing with a goal to create sufficient documentation to add duodenoscopes, which represent a major health safety concern to many hospitals, to our existing claims of video-colonoscopes and gastroscopes. We expect this testing to conclude by year end.

Meanwhile, scope contamination post reprocessing has been identified as a major concern by several independent sources in the health care industry and the issue is surfacing in the general limelight. The struggle of delivering contaminant free scopes to patients recently was even the focus of an episode on a popular TV series. Alarmingly, there appears to be no break in recommended practice that causes this contamination. Simply said, it appears that people are resigned to the fact that current practice simply cannot consistently deliver a contaminant free device to each patient. At TSO_3 we believe we are the solution to this rapidly increasing and documented problem. During the quarter, several US and other hospitals and manufacturers asked TSO_3 to work with them to evaluate programs that might lead to the

terminal sterilization of every scope between patient use. This change won't happen overnight, but it does appear that our belief that each patient deserves a sterile device is shared by many.

For the past several quarters the Company has been pleased to state that we have a strong and positive relationship with our channel partner Getinge. As they too are a public entity, their news can sometimes create new questions for TSO_3 shareholders. During 2016 our channel partner has gone through multiple changes, but a few things remain clear based on the meetings we have had with Getinge senior management: we remain strategically important to Getinge (and vice versa) and each party remains committed to the collective success of our exclusive relationship.

As we look to the last quarter, you should expect to see us begin adding select resources that will further assist in our support of Getinge's commercial activities, expand our sales and marketing efforts inside and outside of the US, communicate our progress in testing results for selected high impact endoscopes.

I wish to extend my appreciation to the TSO_3 team for their dedication and efforts, the Board of Director for their advices and our shareholders for their continued support.

Sincerely,

R.M. (Ric) Rumble
President and CEO

Overview

Who We Are and What We Do

TSO_3 Inc. was founded in June 1998 in Québec City and employs 63 people as at September 30, 2016. The Company's activities encompass the sale, production, maintenance, research, development and licensing of sterilization processes, related consumable supplies and accessories for heat-sensitive medical devices. The Company designs products for sterile processing areas in hospital that offer an advantageous replacement solution to other low temperature sterilization processes currently used in hospitals. We also offer 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 structured under the laws of the State of Delaware, is located in the State of South Carolina, USA and was established to meet US customer requirements. The US represents approximately 40% of the worldwide market for low-temperature sterilization equipment. The US location is or will be used for administration, warehousing and distribution of parts and consumables, laboratory services, conducting light assembly, and providing service and education to US customers.

Our Technology

TSO_3's principal product is the STERIZONE® VP4 Sterilizer. The STERIZONE® VP4 Sterilizer is a dual sterilant, low temperature sterilization system that utilizes vaporized hydrogen peroxide (H_2O_2) and ozone (O_3) as its sterilants. It is a product which evolved from our STERIZONE® 125L+ Sterilizer, which was originally licensed by Health Canada in 2009, CE marked in 2010 and of which the Company subsequently sold a limited number of units in Canada as initial beta units. These initial units have been in continuous operation for more than four years. In December 2014, TSO_3 achieved a major milestone when its STERIZONE® VP4 Sterilizer, which was already cleared for sale in Canada and Europe, received 510(k) clearance from the Food and Drug Administration (FDA).

Extended Claims – Patient Care Improvement

In October 2015, the STERIZONE® VP4 Sterilizer received clearance from Health Canada (Canadian equivalent of the United States FDA) to sell the STERIZONE® VP4 Sterilizer with extended claims associated with multi-channel flexible endoscopes in the Canadian market and on July 4, 2016, TSO_3 announced that the FDA had also cleared TSO_3's expanded indications for use (IFU's) of its STERIZONE® VP4 Sterilizer relating to certain multi-channel flexible endoscopes of up to 3.5 meters in length and four or fewer channels.

Regulatory clearance of the additional claims represents an entirely new level of patient protection against ineffective device reprocessing resulting from the use of less robust disinfecting systems, particularly for flexible endoscopes. These extended claims further expand our technology leadership – offering enhanced patient protection in applications where terminal sterilization was not previously possible. The extended IFU claims cleared by the FDA demonstrate the truly superior capabilities of the STERIZONE® Sterilization System.

With these claims, the TSO_3 STERIZONE® VP4 Sterilizer is the only new generation low temperature terminal sterilization system available in the US, European and Canadian markets which is validated to sterilize complex medical instruments such as colonoscopes, gastroscopes and other multi-channel flexible scopes, which previously could only be treated in a less effective process known as "high-level disinfection". Low temperature sterilization with the STERIZONE® VP4 Sterilizer offers a more effective solution than disinfection, since it involves a proprietary physical and chemical process that thoroughly destroys all types of microbiological organisms, including bacterial spores. Further, the STERIZONE® VP4 Sterilizer terminally sterilizes up to four channels in a single device, an industry first for any terminal medical device sterilization process.

The expanded claims now cleared for the STERIZONE® VP4 Sterilizer correspond to increasing scrutiny by regulatory authorities over medical device reprocessing, particularly for colonoscopes and other complex medical devices used during minimally invasive surgical (MIS) and endoscopic procedures. Much of this concern stems from patient-to-patient transfer of multidrug resistant bacteria that are not inactivated by high-level disinfection. Published reports confirm the significant health risk of device-related transfer of antibiotic resistant microbes, including patient injury or death.

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 U.S;
- 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 channeled devices;
- First low temperature sterilizer validated and cleared in the US, Europe and Canada to sterilize multi-channeled endoscopes (with four or fewer channels) such as video colonoscopes and gastroscopes, along with duodenoscopes in Europe and Canada;
- 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.

TSO_3 has established laboratory data validating the STERIZONE® VP4 Sterilizer, with its dual sterilants of hydrogen peroxide and ozone, can repeatedly sterilize the Olympus TJF-Q180V Duodenoscope, the industry's leading brand and model of duodenoscope. This breakthrough comes at a critical time, with the growing use of duodenoscopes, along with the increasing number of adverse incidents related to ineffectual reprocessing. This specific model is currently cleared only in the Canadian and European Market and the Company is currently performing testing for submission to the FDA in the US.

Our Business Environment and the Market Drivers

Sterile reprocessing of medical devices is essential to ensure positive surgical outcomes. The use of non-sterile surgical instruments contributes to increased infection rates and, in turn, leads to increased patient hospital stays, higher cost of care and greater mortality rates.

The world population is aging, with the fastest growing segment age 65+ expected to nearly double by 2020 from 2010, according to the United Nations. This aging population is expected to result in increasing demand for diagnostic procedures and surgical operations involving scopes and Minimally Invasive Surgical (MIS) devices, and thereby increase demand for efficacious and high-throughput sterilization methods that can process such devices, such as low temperature terminal sterilization systems.

Today, it is not uncommon to find sterile reprocessing of instruments conducted in three areas of a hospital: the central sterile department (CS), the sub-sterile area of the operating room (OR), and the gastroenterology department (GI).

Why Low Temperature Sterile Reprocessing

While some medical instruments are designed for single use, the majority must be reprocessed between surgical cases and therefore need to be compatible with the sterilization process used. Traditionally, steam was used to sterilize surgical instruments.

Today's surgical suite is very different from operating rooms of the past. Currently, the trend continues towards the practice of MIS. Devices used in MIS are complex, expensive and delicate, and in most cases, do not tolerate the steam sterilization process. Instead, they require low-temperature sterilization.

These high-demands, complex devices represent a major financial investment for hospitals as well as a challenge to sterilize.

Our Competitive Landscape

The Company competes in an industry characterized by both multinational and regional companies that market sterilization technologies. The main players in this space are STERIS Corporation, Johnson & Johnson, 3M Company, Getinge AB, Cantel Medical Inc., Olympus Corporation, Custom Ultrasonics Inc., and Belimed AG.

The low-temperature gas sterilization methods most commonly used today are hydrogen peroxide (H_2O_2) sterilization systems. These methods offer "terminal sterilization" referring to the instruments being packaged and therefore, remaining sterile until opened at the surgical site. Current H_2O_2 sterilization methods are fast, however they are very expensive to operate, and have limits as to efficacy and loading capacity based on their design.

Another method that played a role in a sub-segment of low temperature reprocessing was that of liquid chemical sterilization processes. This type of process was used directly in the OR as a just-in-time method to complement the CS department's sterile production. The GI department remains a heavy user of liquid chemical sterilization. Liquid systems have been shown to be ineffective in eliminating bacterial residue in a number of cases and require rinsing with treated water that cannot be assured to be sterile, and therefore instruments cannot be assured to be sterile when used on a patient.

Each of these sterilization methods offers benefits to the customers, but none is a complete solution matching the customer need for high and cost effective throughput of complex and expensive medical devices. Customers must purchase and support a combination of products to meet their daily requirements for sterile supplies. Our technology brings our customers closer to a complete solution, and the extended claims cleared by the FDA demonstrate the truly superior capabilities of the STERIZONE® Sterilization System.

Third Quarter 2016 and Recent Activities

Regulatory Status

On July 4, 2016, the Company announced that it had received FDA clearance for its expanded indications for use of its universal STERIZONE® VP4 Sterilizer. The STERIZONE® VP4 Sterilizer, as well as its accessories and consumables, were originally cleared for commercialization in the US in December 2014. This universal platform with extended claims permits the Company to sell a single product with consistent design and claims language around the globe while reducing inventory costs and process complexity and improving production rates and efficiency.

The expanded claims now cleared for the STERIZONE® VP4 Sterilizer in Canada, Europe and the United States correspond to increasing scrutiny by regulatory authorities over medical device reprocessing, particularly for colonoscopes and other complex medical devices used during minimally invasive surgical procedures. Disinfection is significantly less effective than sterilization because it does not necessarily kill all harmful microorganisms, especially bacterial spores. Low temperature terminal sterilization with the STERIZONE® VP4 Sterilizer offers a more effective solution, since it involves a proprietary physical and chemical process that thoroughly destroys all types of microbiological organisms with a sterility assurance level of 10^{-6} (SAL^{-6}). Further, the evidence TSO_3 has provided to the FDA confirms that the STERIZONE® VP4 Sterilizer can terminally sterilize multi-channeled flexible endoscopes (with a maximum of four 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, which are commonly found in video colonoscopes and gastroscopes - an industry first for any medical device sterilization process.

Recent Commercial Activities

On November 25, 2015, TSO_3 and Getinge Infection Control AB ("Getinge"), a global leader in infection control solutions, entered into an agreement ("the Getinge Agreement") which granted Getinge exclusive global distributor rights to TSO_3's STERIZONE® VP4 Sterilizer in exchange for US$7.5 million plus performance minimums. In December 2015, TSO_3 received its first purchase order from Getinge which meets the full 2016 contractual minimum purchase amount required by the Getinge Agreement.

The performance requirements of Getinge Agreement are multi-year and based on a formula for minimum unit shipments, with minimum annual commitments reaching in excess of 10% of the estimated annual global replacement market within the first five years. Sales under the Getinge Agreement are made on a fixed price basis in US dollars to Getinge, who will be our only customer for the STERIZONE® VP4 Sterilizer while the Getinge Agreement is in force. Getinge will also receive ongoing technical support from TSO_3 as part of the Getinge Agreement. TSO_3 estimates the annual replacement capital expenditure for the low temperature sterilizer market worldwide totals approximately 3,000 units or $450 million in capital costs, from the end customer's perspective.

The exclusive partnership with a top global provider of infection control devices and services represents an endorsement of the STERIZONE® Sterilization System to sterilize the most challenging loads and complex devices used in healthcare today. Getinge is actively selling and installing the STERIZONE® VP4 Sterilizers into US hospitals and initial feedback from end customers has been strong.

Functional Currency

Effective January 1, 2016, the Company changed its functional and reporting currency from Canadian dollars to US dollars as the significant majority of its current and future revenues are and are expected to be denominated in US dollars.

Comparative financial information, previously expressed in Canadian dollars, is now presented in US dollars for all periods shown, using the exchange rate applicable at the financial position date for assets, liabilities and equity, and the average exchange rate of the corresponding periods of the interim condensed consolidated statements of income and comprehensive income (loss) and interim condensed consolidated statements of cash flows items.

European Expansion

In support of a planned European launch of the STERIZONE® VP4 Sterilizer, the Company has initiated studies in France in support of obtaining Prion inactivation claims for that market. Prions are implicated in diseases such as transmissible spongiform encephalopathies which cause bovine spongiform encephalopathy (BSE), frequently referred to as "mad cow disease". TSO_3 is conducting tests using the "standard protocol for prions" (PSP), a protocol established by the French regulatory agency ANSM (formerly referred to Afssaps). Initial studies conducted in France indicate that the STERIZONE® VP4 Sterilizer is effective under in vitro conditions. The study now extends to include additional in vitro and in vivo testing. Prion inactivation claims are required in the French market when medical devices are used in selected "high risk" surgeries such as neurological and ophthalmic procedures.

In addition to pursuing this European claim expansion, the Company has completed development of a double door or "pass-through" option for the STERIZONE® VP4 Sterilizer. Pass-through systems are highly desirable in certain sterilization department designs where a wall separates dirty from clean and clean from sterile inventory. Development completed, TSO_3 will now submit documentation to support the European CE mark, which would clear this option for sale in Europe – the largest anticipated market for the device. We currently plan to begin shipments to Getinge Infection Control, the Company's exclusive global distribution partner, so that installations could occur in end-customer facilities in the first quarter of 2017. While the double door option is less popular in the U.S., the Company plans to pursue clearance to sell the device in the U.S. in the ordinary course.

Intellectual Property

During the third quarter of 2016, the Company was notified by the US Patent Office of its decision to grant four new additional US patents covering important aspects of TSO_3's technology and mostly embedded in the STERIZONE® Sterilization System.

TSO_3 also filed a new patent application covering an additional important aspect of TSO_3's technology in the US to further strengthen patent protection of the STERIZONE® VP4 Sterilizer.

2016 Focus

Over the remainder of 2016, we expect to focus our resources to help our channel partner toward the performance objectives outlined in our mutual agreement. To this end, TSO_3 is improving supply chain and quality processes and consumables supply systems and continuing to work collaboratively with our partner preparing targeted international markets for full market entry later in 2017.

2016 has become the year in which revenue flow begins in earnest for TSO_3 and we are in a position to assemble and deliver in excess of 100 sterilizers. To this end, in the first nine months of 2016, the Company supplied 80 STERIZONE® VP4 Sterilizers to Getinge. The rate of sterilizer deployment into end customers is variable as new technology adoption, equipment replacement and installation cycles in hospitals are difficult to predict. Following the cleared expanded indications for use of its STERIZONE® VP4 Sterilizer and the recent installations of the device in hospitals, we expect additional sterilizer sales to come in the coming months.

During Q3-2016, we focused our energies and resources on training and sales meetings in support of Getinge in the deployment of our STERIZONE® VP4 Sterilizers in the traditional low temperature sterilization market in North America, we made several user presentations and sterilizer installation training sessions around the globe, we performed compatibility testing for traditional and GI market devices, we educated hospitals and hospital systems on endoscope reprocessing and we continued our sterilization testing and documentation of our process in relation to duodenoscopes for future submission to the FDA.

We continue to be focused on the development and commercialization of products in the sterile reprocessing market such as the STERIZONE® 80L Sterilizer and are regularly presented with and evaluate third party technologies or product lines for potential acquisition.

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", the "Company" or "We") for the three-month period ended September 30, 2016 and to compare them with the three-month period ended September 30, 2015. This information is dated November 4, 2016 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 Unaudited Consolidated Financial Statements has been prepared in accordance with the International Financial Reporting Standards ("IFRS"). The Company occasionally refers to non-IFRS financial measures in the MD&A. See the Non-IFRS financial measures section for more information.

The 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 quarterly 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:

- Business and economic conditions;
- The ability to obtain sufficient quantities of supplies and materials when needed;
- The ability to obtain regulatory authorizations to market its product;
- The ability to attract and retain skilled staff;
- Market competition;
- Tax benefits and tax rates;
- The ability to complete research and development work;
- The ability for the Company to market its products;
- The success of the relationship with Getinge and suppliers;
- The ability for Getinge to deploy our products to end customers;
- Foreign currency exchange rates;
- The ability for the Company to attract capital.

These forward-looking statements involve risks and uncertainties relating to, among other things, commercial operations, compatibility, biocompatibility, research and development projects, dependency on key personnel, management of business growth, intellectual property and counterfeiting, competition, product liability issues, litigation, regulatory approvals and financial instruments. Actual results and developments are likely to differ, and may differ materially, from those expressed or implied by the forward-looking statements. Factors that could cause actual results to differ materially include, but are not limited to, the risk factors described under the section “Risk factors” in the Annual Management Discussion and Analysis of the Company for the year ended December 31, 2015 which reflect to our knowledge, the material risks and uncertainties we faced as at September 30, 2016.

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.

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 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.

The principal supplemental non-IFRS metric the Company uses to assess its operational performance 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) amortization and depreciation expenses (3) share-based compensation expense, (4) amortization or write-downs of certain tangible and intangible assets, (5) income taxes, and (6) other significant unusual items.

Summary of Results

Periods ended September 30
(Unaudited, IFRS Basis, in thousands of US dollars, except per share amounts)

	THIRD QUARTER		NINE MONTHS	
	2016 $	2015 $	**2016 $**	2015 $
Revenues	**3,507**	914	**9,555**	1,097
Cost of sales	**2,368**	666	**6,472**	1,094
Gross profit	**1,139**	248	**3,083**	3
Expenses				
Research and development	**806**	542	**2,215**	1,507
Selling, general and administrative	**1,841**	1,026	**4,755**	2,736
Other income	**(50)**	(25)	**(1,637)**	(64)
Total Expenses	**2,597**	1,543	**5,333**	4,179
Net loss before income taxes	**(1,458)**	(1,295)	**(2,250)**	(4,176)
Income taxes	**15**	-	**62**	-
Net loss	**(1,473)**	(1,295)	**(2,312)**	(4,176)
Other comprehensive income (loss)				
Item that will not be reclassified subsequently to net income				
Translation adjustements	**-**	(843)	**-**	(1,333)
Total comprehensive loss	**(1,473)**	(2,138)	**(2,312)**	(5,509)
Weighted Average Number of Outstanding Shares (in thousands)	**91,681**	82,917	**90,432**	81,407
Basic and diluted net loss per Share (in $)	**(0.02)**	(0.02)	**(0.03)**	(0.05)
Basic and diluted net comprehensive loss per Share (in $)	**(0.02)**	(0.02)	**(0.03)**	(0.05)

Results Analysis

In the following paragraphs, the Company discusses the variations of certain accounts within the third quarter of 2016 and 2015 and within the nine-month period ended September 30, 2016 and September 30, 2015.

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

REVENUES

Effective January 1, 2016, the Company changed its functional and reporting currency from Canadian dollars to US dollars as the significant majority of its current and future revenues are and are expected to be denominated in US dollars.

For the third quarter of 2016, revenues equalled $3.5 million, as compared to $0.9 million in the third quarter of 2015. We shipped 30 STERIZONE® VP4 Sterilizers to Getinge in the US in the third quarter of 2016, as well as associated accessories and consumables, and we recognized $0.1 million of Getinge licensing revenue. Q3-2015 included sales of seven units of the STERIZONE® VP4 Sterilizer, which were

the first sales of that device in the United States. For the nine-month period ended September 30, 2016, revenue equalled $9.6 million including 80 sterilizers sold, as compared to $1.1 million and eight sterilizers sold in the same period in 2015.

On December 18, 2015, the Company received a purchase order from Getinge for the full amount of the 2016 minimum purchase commitment associated with the Getinge Agreement. Other than its sale of products, the Company also generates license revenue resulting from the Getinge Agreement. These revenues are recognized as services are rendered and products are delivered over the term of the Getinge Agreement.

NET INCOME (NET LOSS)

In the third quarter of 2016, net loss totaled $1.5 million or $0.02 per share, as compared to a net loss of $1.3 million or $0.02 per share in the third quarter of 2015. For the nine-month period ended September 30, 2016, net loss totaled $2.3 million or $0.03 per share, as compared to $4.2 million or $0.05 per share for the same period in 2015.

During 2016, we increased profit contribution from unit sales of our STERIZONE® VP4 Sterilizer and a one time foreign exchange gain significantly offset expenditures we made in production, materials, research and development activities, marketing, sales, and administration to grow our business and prepare it for the future.

NET COMPREHENSIVE INCOME (LOSS)

For the quarter ended September 30, 2016, the Company incurred no material events which would have impacted its comprehensive gain or loss. For the quarter ended September 30, 2015, the impact associated from the change in functional currency was included in the other comprehensive loss.

Adjusted EBITDA(1)

In thousands of us dollars			**2016**				2015
	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Net income (loss), as reported	**(1,473)**	(1,487)	649	(2,160)	(1,295)	(1,423)	(1,458)
Adjustments							
Income taxes	**15**	(12)	58	-	-	-	-
Depreciation and amortization	**148**	103	77	106	102	100	99
Share-based compensation	**333**	268	216	182	114	118	62
Write-off of intangible assets	**-**	-	-	-	-	-	173
One-time foreign exchange gain on conversion of cash, cash equivalents and short-term investments	**-**	-	(1,578)	-	-	-	-
Adjusted EBITDA	**(977)**	(1,128)	(578)	(1,872)	(1,079)	(1,205)	(1,124)

(1) Non-GAAP financial measures. Refer to the Non-IFRS financial measures.

EXPENSES

Foreign Exchange Impact

Effective January 1, 2016, the Company changed its functional and reporting currency from Canadian dollars (CAD) to US dollars (USD) as the significant majority of its current and future revenues are and are expected to be denominated in US dollars.

The majority of the Company's expenses in 2015 and in the first nine-month period of 2016 are denominated in Canadian dollars. Fluctuations in the value of Canadian dollars relative to US dollars will have an impact on our operating results as expenditures in Canadian dollars are not offset by revenues in the same currency.

In the third quarter of 2016, total expenses denominated in Canadian dollars were CAD$4.1 million, as compared to CAD$2.3 million in the same period in 2015. The average USD/CAD foreign exchange rate in the third quarter 2016 was 0.7665 as compared to 0.7641 in the third quarter of 2015, which is reflected in an increase in expenses of less than 1% year over year upon conversion to USD.

From a quarterly sequential perspective, the USD/CAD foreign exchange rates in the third quarter of 2016 was approximately the same as in the second quarter of 2016 and had a positively impact of 1% on USD costs upon conversion.The net impact of change in presentation currency for the comparative year is recorded as other comprehensive income.

Cost of sales

Cost of sales include 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 September 30, 2016, cost of sales equaled $2.4 million, as compared to $0.7 million for the same period in 2015. For the nine-month period ended September 30, 2016, cost of sales equaled $6.5 million, as compared to $1.1 million for the same period in 2015. In Q1 and Q2 of 2016, we shipped 25 sterilizers; we shipped 30 sterilizers in Q3-2016 while Q3-2015 marked the first sales of the STERIZONE® VP4 Sterilizer in the United States.

In the third quarter of 2016, cost of goods sold increased $0.2 million, from $0.7 million in Q2-2016. Gross profit was $1.1 million, or 32% of revenue in the third quarter of 2016 as compared to 28% in the second quarter of 2016. This increase in our gross profit margin is due to a positive 1% related to USD/CAD foreign exchange rate fluctuations, lower impact of fixed overhead costs due to more unit produced and a decrease in total overhead costs related to investments made in previous quarter.

Research and development

For the quarter ended September 30, 2016, research and development expenses were $0.8 million, as compared to $0.5 million for the same period in 2015. For the nine-month period ended September 30, 2016, these expenses were $2.2 million, as compared to $1.5 million in 2015. In Q3-2016, TSO_3 increased material purchases, salary and maintenance of equipments to work on new project development such as the double door unit as well as extended claims and endoscope and other medical device compatibility studies for our STERIZONE® VP4 Sterilizer.

Selling, General and Administrative (SG&A)

Selling, general and administrative (SG&A) includes marketing, sales and service and administrative expenses. SG&A expenses increased to $1.8 million for the quarter Q3-2016, as compared to $1.0 million for the the same period in 2015. For the nine-month period ended September 30, 2016, these expenses were $4.8 million, as compared to $2.7 million in 2015.

In 2016, the Company incurred additional recruiting, salary, professional fees as well as traveling expenses related to sales, recruiting, marketing and investor relations in order to support our growing business.

During the third quarter of 2016, we incurred additional recruiting, professional fees associated with marketing and strategic consultants as well as costs associated with training and supporting Getinge personnel in both the Canadian and US markets.

Share-based compensation expense

For the quarter ended September 30, 2016, intangible and share-based compensation amortization amounted to $0.3 million, as compared to $0.1 million for the same period in 2015. For the nine-month period ended September 30, 2016, these expenses amounted to $0.8 million, as compared to $0.3 million for the same period in 2015.

As at September 30, 2016, the Company had 5.3 million options oustanding, as compared to 4.4 million options outstanding at the same date in 2015. Share-based compensation amortization grew as the Company issued more stock options to new and existing employees, and the Black-Scholes value of each option was higher as a result of a higher underlying stock price at the time of grant.

During the nine-month period ended September 30, 2016, in connection with the Stock Incentive Compensation Plan which was approved by the Company's stockholders in the Q2-2016, the Company granted deferred share units (DSUs). The Company uses the fair market value to measure compensation expense at the date of award of the DSU. The fair market value is determined using the closing price of the day before the award and its amortization is based on a graded vesting method of 50% at award date and 50% over a period of one year, as compared to stock options that are amortized over a three-year period.

These expenses are presented in the Interim Condensed Consolidated Statements of Income (Loss) and Comprehensive Income (Loss) in the expense line items which correspond to the functions of the option and DSUs holders.

Other income

For the quarter ended September 30, 2016, other income were at $0.05 million, as compared to $0.03 million for the same period in 2015. Income on investments are higher in 2016 due to the level of cash on hand as compared to 2015.

For the nine-month period ended September 30, 2016, these income amounted to $1.6 million, as compared to $0.06 million for the same period in 2015. Following the change in functional currency from Canadian dollars to US dollars, the Company converted substantially all its cash, cash equivalent and short-term investments previously held in Canadian dollars into US dollars. The foreign exchange gain realized following this conversion was $1.6 million in Q1-2016 and was recorded in net income.

In Q3-2016, the Company did not incur significant foreign exchange gains or losses as foreign currency monetary assets closely matched foreign currency liabilities during the period.

Financial Position Analysis

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

	September 30, 2016 $	December 31, 2015 $
Cash, cash equivalents and short-term investments	**20,744**	15,111
Accounts receivable	**3,634**	437
Inventories	**2,100**	1,302
Property, plant and equipment	**1,221**	366
Intangibles assets	**1,812**	1,691
Accounts payable and accrued liabilities	**2,718**	1,288
Warranty provision	**429**	29
Deferred revenues (short and long term)	**7,073**	7,536
Equity	**19,405**	10,133

Liquid Assets

As at September 30, 2016, cash, cash equivalents and short-term investments amounted to $20.7 million, as compared to $15.1 million as at December 31, 2015. The Company received $10.1 million in total cash proceeds from the exercise of 7.7 million warrants and recorded a cash gain of $1.6 million from the translation of Canadian dollars into US dollars in the first quarter of 2016.

During Q3-2016, we generated approximately $0.3 million in cash to fund non-cash working capital adjustments to support our growing business, and used $1.0 million in cash for operations. During the nine-month period ended September 30, 2016, we used approximately $3.2 million in cash used to fund non-cash working capital to support our growing business, and $2.8 million in cash used in operations, when excluding the foreign exchange translation gain.

Accounts Receivable

As at September 30, 2016, the accounts receivable amounted to $3.6 million, as compared to $0.4 million as at December 31, 2015. At the end of Q3-2016, receivables were from Getinge and government for tax credits and mostly reflect the growth in sales of our STERIZONE® VP4 Sterilizer. In December 2015, receivables were largely made up of amounts recoverable from governments for tax credits.

Inventories

As at September 30, 2016, inventories amounted to $2.1 million, as compared to $1.3 million as at December 31, 2015.

	September 30, 2016 $	December 31, 2015 $
Raw Materials	**941**	700
Work in Progress	**142**	273
Finished Goods	**1,017**	329
	2,100	1,302

In 2016, we grew our inventories to support the growth of sales of STERIZONE® VP4 Sterilizers.

Property, Plant and Equipment

Property, plant and equipment increased from $0.4 million as at December 31, 2015 to $1.2 million as at September 30, 2016. During the period we invested in medical devices and sterilizers to perform testing related to product compatibility and extended claims of the STERIZONE® VP4 Sterilizer and in equipment and tools to improve our production rate and our product development.

Intangible Assets

In Q3-2016, we invested $0.2 million in patents which was partially offset by amortization over the period.

Accounts Payable and Accrued Liabilities

As at September 30, 2016, accounts payable and accrued liabilities amounted to $2.7 million, as compared to $1.3 million as at December 31, 2015. The increase is due to trade payables mainly related to the increase in raw material purchases, in accrued salary and in property plant and equipment investments to support production and research departments.

Deferred Revenues

At the end of the third quarter 2016, deferred revenues represented the unamortized part of the deferred license revenue received under the Getinge Agreement.

During the third quarter of 2016 the Company recorded $0.1 million of license revenue from deferred revenue as services are rendered and products are delivered over the term of the Getinge Agreement.

Shareholders' Equity

As at September 30, 2016, Shareholders' Equity amounted to $19.4 million, as compared to $10.1 million as at December 31, 2015. The variation is primarily the result of the net proceeds of $10.1 million from warrants exercised in Q1-2016 in connection with the equity issue closed by the Company on March 5, 2015.

As at September 30, 2016, the number of outstanding shares was 91,943,881 (83,324,789 as at December 31, 2015).

Cash Flows Analysis

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

	NINE MONTHS	
	2016	2015
	$	$
Operating Activities	**(4,337)**	(3.852)
Investing Activities	**(14,955)**	(2,189)
Financing Activities	**10,817**	9,133
Effect of exchange rates on cash and cash equivalents	**-**	(892)

Operating Activities

Cash used by the operating activities amounted to $4.3 million for the nine-month period ended September 30, 2016, as compared to $3.9 million for the corresponding period in 2015. We used approximately $3.1 million in cash to fund working capital adjustments to support our growing business, and consumed $1.3 million in net loss, after adjusting for non-cash items and inclusive of a $1.6 million

foreign exchange translation gain from the translation of Canadian dollars into US dollars recorded in Q1-2016.

Investing Activities

For the nine-month period ended September 30, 2016, investing activities consumed $15.0 million, as compared to $2.2 million for the same period in 2015; an increase resulting from the net purchase of $14.1 million in short-term investments and $0.9 million in property plant and equipment and intangible assets in the nine-month of 2016, as compared to $1.9 million and $0.3 million respectively in the same period last year.

Financing Activities

For the nine-month period ended September 30, 2016, financing activities generated $10.8 million as compared to $9.1 million for the same period in 2015. Both periods were impacted by the equity issue closed on March 5, 2015. In the first quarter of 2016 we received $10.1 million from warrant exercises for warrants originally issued in Q1 of 2015, while in the first quarter of 2015 we received a net amount of $8.3 million from the initial share issuance. For the three-month period ended September 30, 2016, $0.5 million ($0.7 million for the nine-month period ended September 30, 2015) were generated from options exercised as compared to $0.02 million for the same period in 2015 ($0.02 million for the nine-month period ended September 30, 2015).

Summary of Quarterly Results

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

This table shows the quarterly evolution of sales, net income (loss) and net income (loss) per share.

			2016				2015
	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenues	**3,507**	2,977	3,071	151	914	111	72
Net income (loss)	**(1,473)**	(1,487)	649	(2,160)	(1,295)	(1,423)	(1,458)
Net income (loss) per Share (basic and diluted, in $)	**(0.02)**	(0.02)	0.01	(0.03)	(0.02)	(0.02)	(0.02)

Segmented Information

The Company is structured as a single operating segment.

Substantially all of our, property, plant and equipment as well as inventories are located in Canada.

Revenues are allocated between geographic areas based on the location of the invoiced client and are as follows for periods ended September 30:

	THIRD QUARTER				**NINE MONTHS**			
	2016		2015		**2016**		2015	
in thousands of US$	**$**	**%**	$	%	**$**	**%**	$	%
Canada	**51**	**1**	79	9	**218**	**2**	262	24
United States	**3,456**	**99**	835	91	**9,337**	**98**	835	76
	3,507	**100**	914	100	**9,555**	**100**	1,097	100

For the third quarter of 2016, revenue from Getinge represented 99% of the Company's total revenues in conjunction with Getinge and TSO_3's exclusive distribution agreement (91% for the same period in 2015). Shipments to Getinge were made in the United States.

Off-Balance Sheet Arrangement

The Company made no off-balance sheet arrangement during the third quarter of 2016 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 September 30, 2016, $26.0 million in tax assets would have been recorded based on an effective rate of 15% for federal taxes and 11.9% for provincial taxes (same amount as at December 31, 2015).

Capital Resources

The Company needs capital primarily to finance its research and development, its selling, general and administrative expenses, its working capital and its capital expenditures. The Company's capital is comprised of share capital, reserve for share-based compensation and reserve for warrants.

Depending on the quality of the credit structure of a prospective debt transaction and prevailing market conditions, the Company could finance a portion of its cash needs through debt issues. However, given its history of negative earnings, it is unlikely at the present time that the Company could access senior debt financing in any sizable amount from traditional sources such as commercial banks. In the past, the Company has financed its activities through public and private financings and, to a small extent, through government grants and tax credits.

The Company invests its funds in highly liquid short-term investments as required by its Investment Policy (see section on Risk Factors). These securities are chosen on the basis of foreseen cash requirements and safety.

Accounting Policies

The reader is refered to notes 2 and 3 of the Company's Annual Audited Consolidated Financial Statements for the Condensed Consolidated Unaudited Financial Statements for the third quarter ended September 30, 2016 for a detailed presentation of accounting policies, critical accounting judgments, key source of estimation uncertainty and future accounting changes.

Risk Factors

We operate in industry segments that have a variety of risk factors and uncertainties. We hereby incorporate by reference the risks and uncertainties described in our Annual Management Discussion and Analysis of the Company for the year ended December 31, 2015 which reflect, to our knowledge, the material risks and uncertainties we faced as at September 30, 2016.

Disclosure and Internal Controls

In accordance with National Instrument 52-109 of the Canadian Securities Authorities, the Company has filed certificates signed by the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO") that, among other things, report on the design of disclosure controls and procedures (DC&P) and the design 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.

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.

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

An evaluation of the design of DC&P and ICFR is carried out annually under the supervision of the CEO and the CFO and the results of the last such evaluation were communicated to the Board of Directors as part of the review made in connection with the end of fiscal year 2015. This evaluation consisted of a review of documentation, audits and other procedures that management considered appropriate in the circumstances.

Based on this evaluation and using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) on Internal Control – Integrated Framework and in connection with the preparation of its financial report and management's discussion and analysis, the two certifying officers consider the design of DC&P and ICFR to be adequate for the Company's reporting for the interim period ended September 30, 2016.

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 September 30, 2016 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 nine-month periods

ended September 30, 2016 and 2015

Interim Condensed Consolidated Statements of Income and Comprehensive Income (Loss)

(Unaudited, in thousands of US dollars, except per share amounts)
Periods ended September 30, 2016 and 2015

	Notes	THIRD QUARTER 2016 $	THIRD QUARTER 2015 $	NINE MONTHS 2016 $	NINE MONTHS 2015 $
Revenues	15	**3,507**	914	**9,555**	1,097
Cost of sales		**2,368**	666	**6,472**	1,094
Gross profit		**1,139**	248	**3,083**	3
Expenses	5				
Research and development		**806**	542	**2,215**	1,507
Selling, general and administrative		**1,841**	1,026	**4,755**	2,736
Other income	4	**(50)**	(25)	**(1,637)**	(64)
Total expenses		**2,597**	1,543	**5,333**	4,179
Net loss before income taxes		**(1,458)**	(1,295)	**(2,250)**	(4,176)
Income taxes		**15**	-	**62**	-
Net loss		**(1,473)**	(1,295)	**(2,312)**	(4,176)
Other comprehensive income (loss)					
Item that will not be reclassified subsequently to net income					
Translation adjustements		**-**	(843)	**-**	(1,333)
Total comprehensive loss		**(1,473)**	(2,138)	**(2,312)**	(5,509)
Basic and diluted net loss per share	16	**(0.02)**	(0.02)	**(0.03)**	(0.05)
Basic and diluted net comprehensive loss per share		**(0.02)**	(0.02)	**(0.03)**	(0.05)

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 $	Reserve – warrants $	Deficit $	Other comprehen-sive income $	Total $
Balance at January 1, 2015		90,079	3,539	-	(85,119)	-	8,499
Issuance of share capital and warrants	11	8,620	-	488	-	-	9,108
Share-based compensation	12	-	294	-	-	-	294
Warrants exercised	11,13	948	-	(30)			918
Options exercised	11	31	(13)	-	-	-	18
Compensation warrants issued to underwriters	13	(86)	-	86	-	-	-
Share and warrant issue expenses	11	(863)	-	(49)	-	-	(912)
Net impact of change in presentation currency	2	-	-	-	-	(1,333)	(1,333)
Net loss for the period		-	-	-	(4,176)	-	(4,176)
Balance at September 30, 2015		98,729	3,820	495	(89,295)	(1,333)	12,416
Balance at October 1, 2015		98,729	3,820	495	(89,295)	(1,333)	12,416
Share-based compensation	12	-	182	-	-	-	182
Options exercised	11	35	(12)	-	-	-	23
Warrants exercised	11, 13	53	-	(2)	-	-	51
Net impact of change in presentation currency	2	-	-	-	-	(379)	(379)
Net loss for the period		-	-	-	(2,160)	-	(2,160)
Balance at December 31, 2015		98,817	3,990	493	(91,455)	(1,712)	10,133
Balance at January 1, 2016		98,817	3,990	493	(91,455)	(1,712)	10,133
Options exercised	11	1,032	(360)	-	-	-	672
Warrants exercised	11, 13	10,486	-	(391)	-	-	10,095
Warrants expired	13	-	-	(102)	102	-	-
Share-based compensation	12	-	817	-	-	-	817
Net loss for the period		-	-	-	(2,312)	-	(2,312)
Balance at September 30, 2016		110,335	4,447	-	(93,665)	(1,712)	19,405

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	September 30, 2016 $	December 31, 2015 $
Current Assets			
Cash and Cash Equivalents	6	**4,179**	12,654
Short-term Investments	6	**16,565**	2,457
Accounts Receivable		**3,634**	437
Inventories	7	**2,100**	1,302
Prepaid Expenses		**114**	79
		26,592	16,929
Non-current Assets			
Property, Plant and Equipment	8	**1,221**	366
Intangible Assets	9	**1,812**	1,691
		3,033	2,057
		29,625	18,986
Current Liabilities			
Accounts Payable and Accrued Liabilities		**2,718**	1,288
Warranty Provision		**429**	29
Deferred Revenues	10	**817**	801
		3,964	2,118
Non-current Liabilities			
Deferred Revenues	10	**6,256**	6,735
		10,220	8,853
Equity			
Share Capital	11	**110,335**	98,817
Reserve – Share-based Compensation	12	**4,447**	3,990
Reserve – Warrants	13	**-**	493
Accumulated Deficit		**(93,665)**	(91,455)
Accumulated Other Comprehensive Loss	2	**(1,712)**	(1,712)
		19,405	10,133
		29,625	18,986

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

Interim Condensed Consolidated Statements of Cash Flows

(Unaudited, in thousands of US dollars)
Periods ended September 30, 2016 and 2015

	Notes	NINE MONTHS 2016 $	2015 $
Cash flows from operating activities			
Net loss		**(2,312)**	(4,176)
Adjustments for:			
Depreciation and amortization		**328**	301
Write-off of intangible assets		**-**	173
Share-based compensation	12	**817**	294
Investment income	4	**(131)**	(74)
		(1,298)	(3,482)
Changes in non-cash operating working capital items	14	**(3,134)**	(444)
Interest received		**95**	74
Cash flows used in operating activities		**(4,337)**	(3,852)
Cash flows from investing activities			
Acquisition of short-term investments		**(22,917)**	(4,482)
Disposal of short-term investments		**8,845**	2,548
Acquisition of property, plant and equipment	8	**(635)**	(102)
Acquisition of intangible assets	9	**(248)**	(153)
Cash flows used in investing activities		**(14,955)**	(2,189)
Cash flows from financing activities			
Issuance of share capital and warrants	11	**-**	9,108
Share capital and warrants issue expenses	11	**-**	(912)
Options exercised	11	**672**	19
Warrants exercised	11, 13	**10,145**	918
Cash flows generated by financing activities		**10,817**	9,133
Effect of exchange rates on cash and cash equivalents		**-**	(892)
Increase (decrease) in cash and cash equivalents		**(8,475)**	2,200
Cash and cash equivalents at the beginning		**12,654**	5,149
Cash and cash equivalents at the end		**4,179**	7,349

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

Notes to the Interim Condensed Consolidated Financial Statements

Periods ended September 30, 2016 and 2015
(Unaudited, in thousands of US dollars, unless otherwise indicated)

1. Description of Business

TSO_3 ("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 for heat-sensitive medical devices. The Company designs products for sterile processing areas in the hospital environment that offer an advantageous replacement solution to other low temperature sterilization processes currently used in hospitals. We also offer services related to the maintenance of sterilization equipment and compatibility testing of medical devices with such processes. The head office of the Company is located at 2505, avenue Dalton, Québec (Québec), Canada and its subsidiary office is located at 1636 American Way, Myrtle Beach, SC, United States.

2. Accounting Policies

Statement of Compliance

The 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 September 30, 2016 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, 2015.

Accounting Policy Adopted

On December 18, 2014, the IASB issued Disclosure Initiative (Amendments to IAS 1) as part of its major initiative to improve presentation and disclosure in financial reports. The amendments to IAS 1 relate to (1) materiality; (2) order of the notes; (3) subtotals; (4) accounting policies; and (5) disaggregation and are designed to further encourage companies to apply professional judgment in determining what information to disclose in their financial statements. As at January 1, 2016, the Company adopted the amendments to IAS 1 and it had no impact on its financial statements.

Basis of Presentation

Effective January 1, 2016, the Company changed its functional and reporting currency from Canadian dollars to US dollars as the significant majority of its current and future revenues are and are expected to be denominated in US dollars.

Comparative financial information previously expressed in Canadian dollars is now presented in US dollars for all periods shown, using the exchange rate applicable at the financial position date for assets, liabilities and equity, and the average exchange rate of the corresponding periods of the interim condensed consolidated statements of income and comprehensive income and interim condensed consolidated statements of cash flows items. Adjustments resulting from translations are included in the other comprehensive income in the Equity as at December 31, 2015.

The financial statements have been prepared on a going concern basis, at historical cost, except for certain financial instruments that are measured at fair value, as explained in the accounting policies below. Historical cost generally reflects the fair value of the consideration given in exchange for assets. The principal accounting policies are set out hereafter.

Notes to the Interim Condensed Consolidated Financial Statements

Periods ended September 30, 2016 and 2015
(Unaudited, in thousands of US dollars, unless otherwise indicated)

2. Accounting Policies (cont'd)

Presentation Currency and Foreign Currency Translation

Starting on January 1, 2016, foreign currency transactions of the Company are translated into US dollars as follows: monetary assets and liabilities are translated at the exchange rate in effect at the reporting date, non-monetary assets and liabilities are translated at historical rates, revenues and expenses are translated at the exchange rates in effect at the time of the transaction, and exchange gains or losses resulting from translation are recorded in net income.

Comparative numbers as at December 31, 2015 are translated into US dollars as follows: assets, liabilities and equity are translated at the exchange rate in effect at the reporting date, revenues and expenses are translated at the exchange rates in effect at the time of the transaction, and exchange gains or losses resulting from translation are recorded in the other comprehensive income.

Deferred Share Unit Plan

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

Revenue Recognition

Revenue

The Company generates revenue from the sale of sterilizers, related spare parts and maintenance services, consumable supplies, accessories and compatibility testing services. The Company recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred, the price to the buyer is fixed or determinable and collection is reasonably assured. In addition, the Company earns revenue from service contracts that is recognized using the straight-line method over the term of each contract.

Revenue from bill-and-hold arrangements is recognized when it is probable that delivery will be made, the item is clearly identified and ready for delivery, the buyer specifically acknowledges the deferred delivery instructions and usual payment terms apply.

The Company also generates license revenue resulting from an exclusive distribution agreement with Getinge Infection Control. These revenues are recognized as services are rendered and products are delivered over the term of the Getinge Agreement (see Note 10).

Notes to the Interim Condensed Consolidated Financial Statements

Periods ended September 30, 2016 and 2015
(Unaudited, in thousands of US dollars, unless otherwise indicated)

2. Accounting Policies (cont'd)

Revenue Recognition (cont'd)

Financial Income

Financial Income from a financial asset is recognized when it is probable that the economic benefits will flow to the Company and the amount of income can be measured reliably. Financial income is accounted for on an accrual basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Warranty Provision

The Company offers a standard warranty of the shorter of 18 months for product shipped to our distributor and 12-months for product sold through to end users. The estimated cost of the warranty is based on the Company's history with defective sterilization devices and their related spare parts and accessories, the probability that these defects will materialize and their repair costs.

Critical Accounting Judgments and Key Sources of Estimates Uncertainty

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

1. *Recoverability of Long-Lived Assets:*

   On an annual basis, the Company evaluates if there are indicators of impairment. When such indicators are identified, the Company is required to perform an impairment test in order to measure the recoverable amount of its long-lived assets. The main judgments made by management for the impairment test performed as at December 31, 2015 were the following:

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

2. *Inventory Valuation:*

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

Notes to the Interim Condensed Consolidated Financial Statements

Periods ended September 30, 2016 and 2015
(Unaudited, in thousands of US dollars, unless otherwise indicated)

2. Accounting Policies (cont'd)

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

3. Government Assistance and Research and Development Tax Credits

Government assistance and research and development tax credits are recorded in the financial statements under item "Research and Development" when there is reasonable assurance that the Company has complied with, and will continue to comply with, all of the conditions necessary to obtain the assistance. In general, the Company recognizes 80 % of the amount that it expects to receive at the time a claim is recorded.

4. Share-Based Compensation:

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

The share-based compensation expense entailed by the award of DSUs has been amortized using the graded vesting method. DSUs 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. In evaluating the value of the DSUs, the Company uses judgment in assessing critical parameter such as the estimated number of DSUs that will vest.

5. Warrants Valuation:

Warrants issued as part of an equity issue may be exercised at any time after their issuance until their stated expiry. In evaluating the value of the warrants, the Company uses judgment in assessing critical parameters such as the volatility, the risk free interest rate and the likelihood that the Company will be able to exercise its option to accelerate the maturity of the warrants.

6. Deferred Income Taxes:

A deferred income tax asset will be recognized in the financial statements only when the Company concludes that these tax assets will probably be materialized by shielding profits from taxes or otherwise. The tax asset amount will be recorded based on the enacted and substantively enacted income tax rates for the year in which the differences are expected to reverse.

7. Functional Currency:

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

Notes to the Interim Condensed Consolidated Financial Statements

Periods ended September 30, 2016 and 2015
(Unaudited, in thousands of US dollars, unless otherwise indicated)

2. Accounting Policies (cont'd)

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

8. *Revenue Recognition:*

   The Company applies judgment in determining the different deliverables related to the distribution agreement and estimating the revenues related to these elements.

   Revenues from sales of products are recognized when products have been delivered to the distributor and collection is reasonably assured.

9. *Warranty:*

   The Company applies judgment in determining the possible liabilities that it may incur under its product warranty obligations.

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

3. Future Accounting Changes

On July 25, 2014, the IASB completed its project on financial instruments by publishing amendments to IFRS 9 "Financial Instruments", which replaces the provisions of IAS 39 "Financial Instruments: Recognition and Measurement". IFRS 9, as amended, introduces a logical approach for the classification of financial assets, which is driven by cash flow characteristics and the business model in which an asset is held. This single, principle-based approach replaces existing rule-based requirements that are generally considered to be overly complex and difficult to apply. The new model also results in a single impairment model being applied to all financial instruments, thereby removing a source of complexity associated with previous accounting requirements. The IFRS 9 is effective for annual periods beginning on or after January 1, 2018. Early adoption is permitted. The Company is currently evaluating the impact of this new standard on its financial statements.

The IASB also published IFRS 15 - Revenue from Contracts with Customers, which replaces all the revenue standards and interpretations in IFRS, including IAS 11 - Construction Contracts and IAS 18 - Revenue. The IFRS 15 is effective for annual periods beginning on or after January 1, 2018. Early adoption is permitted for IFRS 15. The Company is currently evaluating the impact of this new standard on its financial statements.

On January 29, 2016, the IASB published an amendment to IAS 7 - Statement of Cash Flows. The amendment, "Disclosure Initiative" clarifies that changes in liabilities arising from financing activities, including cash and non-cash changes, shall be disclosed in the Statement of Cash Flows. The provisions of this amendment will apply to financial statements beginning on or after January 1, 2017. Early adoption is permitted. The Company is currently evaluating the impact of this amendment on its financial statements.

Notes to the Interim Condensed Consolidated Financial Statements

Periods ended September 30, 2016 and 2015
(Unaudited, in thousands of US dollars, unless otherwise indicated)

3. Future Accounting Changes (cont'd)

On September 16, 2014, the IASB published an amendment to IFRS 10 – Consolidated Financial Statements and to IAS 28 - Investments in Associates and Joint Ventures. The amendment "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture" clarifies the accounting for the gain or loss resulting from loss of control or from transfer of assets following a transaction with an associate or joint venture. Originally, the provisions of this amendment were supposed to apply prospectively to financial statements beginning on or after January 1, 2016. However, in December 2015, IASB published an amendment which defers the application to financial statements beginning on or after a date to be determined. Early adoption is permitted. The Company is currently evaluating the impact of this amendment on its financial statements.

On January 13, 2016, the IASB published the standard IFRS 16 - Leases, which replaces IAS 17, Leases. This new standard specifies how to recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless lease term is 12 months or less or the underlying asset has a low value. Lessor accounting remain substantially unchanged. The provisions of this new standard will apply to financial statements beginning on or after January 1, 2019. Early adoption is permitted if IFRS 15, Revenue from Contracts with customers is previously applied. The Company is currently evaluating the impact of this new standard on its financial statements.

4. Other Income

	THIRD QUARTER		NINE MONTHS	
	2016	2015	**2016**	2015
	$	$	**$**	$
Investment Income	**(65)**	(23)	**(131)**	(70)
Bank Charges	**14**	5	**30**	24
Foreign Exchange Gain (Loss)	**1**	(7)	**(1,536)**	(18)
	(50)	(25)	**(1,637)**	(64)

5. Additional Information on the Interim Condensed Consolidated Statements of Income and Comprehensive Income (Loss)

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

	THIRD QUARTER		NINE MONTHS	
	2016	2015	**2016**	2015
	$	$	**$**	$
Salary and Other Benefits	**1,364**	1,051	**4,054**	2,807
Share-based compensation expense	**333**	114	**817**	294
Depreciation of Property, Plant and Equipment	**103**	61	**201**	177
Amortization of Intangible Assets	**44**	41	**127**	124

Notes to the Interim Condensed Consolidated Financial Statements

Periods ended September 30, 2016 and 2015
(Unaudited, in thousands of US dollars, unless otherwise indicated)

6. Financial Instruments

Cash and Cash Equivalents

	September 30, 2016 $	December 31, 2015 $
Cash	**4,179**	6,291
Investments with Maturities of Three Months or Less		
Bank Guaranteed Investment Certificates	**-**	6,363
	4,179	12,654

Short-term Investments

	September 30, 2016 $	December 31, 2015 $
Bank Guaranteed Investment Certificates	**2,009**	2,457
Bonds	**14,556**	-
	16,565	2,457

Short-term Investments were rated A+ or better and had an average yield of 0.94% as at September 30, 2016.

Bonds held by the Company are classified as level 1 under IFRS 13 because their valuation model is based on quoted prices included in Level 1 that are observable for the assets. Their fair value is calculated using the market value on the measurement date.

Bank Guaranteed Investment Certificates held by the Company are classified as level 2 under IFRS 13 because their valuation model is based on inputs other than quoted prices included in Level 1 that are observable for the assets, either directly or indirectly. Their fair value is calculated using the expected cash flows method discounted at the market rate on the measurement date.

No transfer between Level 1 and Level 2 of the fair value hierarchy has been made during the three-month period ended September 30, 2016 (no transfer in 2015 for the same period).

7. Inventories

	September 30, 2016 $	December 31, 2015 $
Raw Materials	**941**	700
Work in Progress	**142**	273
Finished Goods	**1,017**	329
	2,100	1,302

Notes to the Interim Condensed Consolidated Financial Statements

Periods ended September 30, 2016 and 2015
(Unaudited, in thousands of US dollars, unless otherwise indicated)

8. Property, Plant and Equipment

During the nine-month period ended September 30, 2016, the Company acquired equipment and tools of $0.2 million, medical devices and sterilizers for $0.6 million. For the same period in 2015, the Company acquired $0.1 million in equipment and tools, marketing demonstration equipment, medical devices, computer equipment and leasehold improvements.

9. Intangible Assets

During the nine-month period ended September 30, 2016, the Company acquired $0.2 million of new patents, licences and trademarks. For the same period in 2015, the Company acquired $0.1 million in patents, licences, trademarks and software.

10. Deferred Revenues

On November 25, 2015, the Company and Getinge entered into an exclusive distribution agreement (the Getinge Agreement) to distribute the STERIZONE® VP4 Sterilizer worldwide in exchange for US$7.5 million. The Getinge Agreement includes performance requirements for five years as well as a formula for minimum unit shipments. Getinge will also receive ongoing technical support from the Company.

The Company recorded the US$7.5 million received as deferred revenues which shall be recorded as revenue over the life of the agreement.

Sales under the Getinge Agreement are made on a fixed price basis in US dollars to Getinge, who will be the only customer for the STERIZONE® VP4 Sterilizer while the Getinge Agreement is in force.

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

11. 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.

Notes to the Interim Condensed Consolidated Financial Statements

Periods ended September 30, 2016 and 2015
(Unaudited, in thousands of US dollars, unless otherwise indicated)

11. Share Capital (cont'd)

Issued:

	September 30, 2016		December 31, 2015	
Issued and Paid	**Number of Common Shares**	**$**	Number of Common Shares	$
Balance at Beginning	**83,324,789**	**98,817**	73,399,656	90,079
New Issue	**-**	**-**	9,200,000	7,671
Options Exercised	**936,492**	**1,032**	42,333	66
Warrants Exercised	**7,682,600**	**10,486**	682,800	1,001
Balance at the End	**91,943,881**	**110,335**	83,324,789	98,817

On March 5, 2015, the Company closed a public equity issue of 9.2 million units in the capital of the Company at the price of US$0.99 (CAD$1.25) per unit for aggregate gross proceeds of US$9.1 million (CAD$11.5 million).

Each unit was comprised of one common share and one warrant entitling to acquire one common share at a price of US$1.43 (CAD$1.875) at any time prior to March 5, 2017. The warrants were subject to an accelerated expiry if, at any time after September 30, 2015, the published closing trade price of the common shares on the TSX was equal or greater than US$1.52 (CAD$2.00) for any 10 consecutive trading days. As at January 5, 2016, the Company announced the acceleration of the expiry date to February 4, 2016 (Note 13).

The compensation paid to the syndicate of underwriters was equal to a sale commission of 7% of the gross proceeds from the equity issue, and the issuance of 460,000 compensation warrants. Each compensation warrant enabled its holder to purchase one common share of the Company at the price of US$0.99 (CAD$1.25) until March 5, 2016. These compensation warrants had a fair value of $0.1 million (CAD$0.1 million) (Note 12).

During the nine-month period ended September 30, 2016, in connection with the exercise of warrants, the Company issued 7,682,600 common shares for a cash consideration of US$10.1 million (682,800 common shares for a cash consideration of US$1.0 million for the year ended December 31, 2015).

Net cash proceeds from the 2015 issue were US$8.2 million (CAD$10.4 million) after payment of the underwriters' commission and the cash expenses of the issue. Expenses incurred in connection with the equity issue and the underwriters' commission were allocated to the Share Capital and the Reserve - Warrants based on a pro rata of the respective fair value estimated for each share issued and for each issued warrant.

During the third quarter ended September 30, 2016, pursuant to the Company's Stock Option Plan, 786,494 stock options have been exercised for an aggregate cash consideration of US$0.5 million. During the year ended December 31, 2015, holders exercised 42,333 options for an aggregate cash consideration of US$0.04 million.

Notes to the Interim Condensed Consolidated Financial Statements

Periods ended September 30, 2016 and 2015
(Unaudited, in thousands of US dollars, unless otherwise indicated)

11. 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 Plan

DSUs are awarded in connection with the stock incentive compensation plan. Under this plan, each eligible person receives a portion of his or her compensation in the form of DSUs. DSUs 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. The value of a DSU is determined based on the closing price of the Common Shares of TSO_3 for the last trading day. The DSUs are repurchased by TSO_3, and the Company anticipates using common stock when an eligible person ceases to be a plan participant. For the purpose of repurchasing DSUs, the value of a DSU 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.

As at September 30, 2016, the number of DSUs awarded amounted to 0.1 million (none as at September 30, 2015). During the nine-month period ended September 30, 2016, TSO_3 recorded a compensation expense of $0.08 million (none as at September 30, 2015) for its deferred share unit plan.

12. Reserve – Share-Based Compensation

The Company's Board of Directors adopted a Share-Based Compensation plan in the form of an option plan designed solely for directors, executives, key employees and service providers of the Company. The plan was approved by the shareholders. The total number of common shares that can be issued under this plan from the Company's share capital was 9.0 million as at September 30, 2016, (8.2 million as at December 31, 2015). 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 nine-month period ended September 30, 2016, the Company awarded 1.8 million stock options, (1.3 million for the same period in 2015) at a weighted average exercise price of US$1.79 or CAD$2.39 (US$1.22 or CAD$1.54 for the same period in 2015). The weighted average fair value of these stock options was US$0.86 or CAD$1.15 for the nine-month period of 2016 (US$0.60 or CAD$0.76 for the same period in 2015).

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 US$0.8 million for the nine-month period ended September 30, 2016 (US$0.3 million for the same period in 2015) presented in the Interim Condensed Consolidated Statements of Income and Comprehensive Income (Loss) in the functions based on the option holders.

Notes to the Interim Condensed Consolidated Financial Statements

Periods ended September 30, 2016 and 2015
(Unaudited, in thousands of US dollars, unless otherwise indicated)

12. 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$	**September 30, 2016**	December 31, 2015
Weighted Average Share Price	**$2.01**	$1.24
Exercise Price	**$2.01**	$1.24
Risk Free Interest Rate	**0.84%**	1.36%
Estimated Share Price Volatility	**45%**	44%
Expected Life	**8 years**	8 years
Expected Dividend Yield	**0%**	0%

The Share-Based Compensation expenses takes into account an estimate of the number of options and DSUs 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. Option's volatility was estimated for the 2016 and 2015 awards on the basis of the historical volatility of the Company's share price prior to the date of award. Any change in the assumptions can materially affect the fair value estimates.

	September 30, 2016	**Weighted Average Exercise Price**	December 31,2015	Weighted Average Exercise Price
US$	**Number**	**$**	Number	$
Outstanding at beginning	**4,993,568**	**0.89**	3,369,535	0.70
Granted	**1,776,137**	**2.01**	1,971,500	1.24
Exercised	**(936,492)**	**0.71**	(42,333)	0.91
Expired	**(73,203)**	**0.81**	(48,467)	0.98
Forfeited	**(437,446)**	**0.72**	(256,667)	0.92
Outstanding at end	**5,322,564**	**1.31**	4,993,568	0.89
Exercisable at end	**2,464,910**	**0.72**	2,947,068	0.72

The following table summarizes certain information regarding the stock options of the Company as at September 30, 2016:

	Outstanding Options		**Exercisable Options**	
Exercise Price in US$	**Number**	**Average Remaining Contractual Life (year)**	**Number**	**Average Remaining Contractual Life (year)**
$0.35 to $0.84	**1,522,103**	**3.84**	**1,397,925**	**3.41**
$1.02 to $1.58	**2,831,167**	**8.19**	**823,828**	**5.97**
$1.70 to $2.76	**969,294**	**8.29**	**243,157**	**3.81**
	5,322,564	**6.97**	**2,464,910**	**4.31**

Notes to the Interim Condensed Consolidated Financial Statements

Periods ended September 30, 2016 and 2015
(Unaudited, in thousands of US dollars, unless otherwise indicated)

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

The following table summarizes certain information regarding the stock options of the Company as at December 31, 2015:

	Outstanding Options		Exercisable Options	
Exercise Price in US$	**Number**	**Average Remaining Contractual Life (year)**	**Number**	**Average Remaining Contractual Life (year)**
$0.35 to $0.84	2,082,500	4.25	1,767,500	3.49
$1.00 to $1.58	2,512,000	7.04	780,500	6.37
$1.70 to $3.19	399,068	3.31	399,068	3.31
	4,993,568	5.58	2,947,068	4.23

13. Reserve – Warrants

	September 30, 2016		December 31, 2015	
US$	**Number**	**Weighted Average Exercise Price $**	Number	Weighted Average Exercise Price $
Outstanding at Beginning	**8,977,200**	**1.33**	-	-
Issued	**-**	**-**	9,660,000	1.33
Exercised	**7,682,600**	**1.31**	(682,800)	1.35
Expired	**1,294,600**	**1.36**	-	-
Outstanding at end	**-**	**-**	8,977,200	1.33
Exercisable at end	**-**	**-**	8,977,200	1.33

During the first quarter of 2015, 9.2 million warrants were issued to purchasers of units on the closing date of the bought deal offering by prospectus in March 2015. The warrants were subject to an accelerated expiry if at any time after September 30, 2015, the published closing trade price of the Company's common shares on the TSX was equal to or greater than US$1.52 (CAD$2.00) for 10 consecutive trading days. These warrants, allowed their holders to purchase 9.2 million shares at a price of US$1.43 (CAD$1.875) per share until their March 5, 2017 expiry.

On January 5, 2016, the Company has prevailed itself of an option to accelerate the maturity of the warrants to February 4, 2016. On March 5, 2015, the fair value of each of these warrants was US$0.05 (CAD$0.067), for an aggregate value of US$0.5 million (CAD$0.6 million). Of the 8.5 million warrants subject to expiry acceleration as at January 5, 2016, 7.2 million were exercised and 1.3 million expired unexercised. The total proceeds from the 7.2 million warrants subject to an accelerated expiry associated with the 2015 financing equaled US$9.7 million (CAD$13.5 million).

Notes to the Interim Condensed Consolidated Financial Statements

Periods ended September 30, 2016 and 2015
(Unaudited, in thousands of US dollars, unless otherwise indicated)

13. Reserve – Warrants (cont'd)

In addition, 460,000 warrants were issued as part of the compensation to the underwriters in connection with the equity issue closed on March 5, 2015. Each of these 460,000 compensation warrants were exercisable to acquire one common share at the exercise price of US$0.99 (CAD$1.25) until March 5, 2016. On March 5, 2015, the fair value of each of these warrants was US$0.17 (CAD$0.235), for an aggregate value of US$0.1 million (CAD$0.1 million). From January 1, 2016 to the expiration date of March 5, 2016, all compensation warrants had been exercised for total cash proceeds of US$0.4 million (CAD$0.6 million).

The fair value of the warrants issued was estimated using the Black-Scholes option pricing model using the following assumptions:

	September 30, 2016	December 31, 2015
Weighted Average Share Price	**-**	$0.92
Exercise Price	**-**	$1.37
Risk Free Interest Rate	**-**	1.45%
Estimated Share Price Volatility	**-**	43.5%
Expected Life (without the option to accelerate the maturity)	**-**	23 months
Expected Dividend Yield	**-**	0%

At any time when warrants expire without being exercised or are being cancelled, the Company is authorized to transfer to the Deficit the corresponding amount that was included in the Reserve for Warrants. Consequently, upon the expiration of 1.3 million warrants on February 4, 2016, the corresponding reserve of US$0.1 million was transferred to the Deficit.

14. Additional Information Relating to Cash Flows

	NINE MONTHS	
	2016	2015
	$	$
Changes in Non-Cash Operating Working Capital Items		
Decrease (Increase) in Current Assets		
Accounts Receivable	**(3,197)**	(905)
Inventories	**(798)**	(19)
Prepaid Expenses	**(35)**	13
Increase (Decrease) in Current Liabilities		
Accounts Payable, Accrued Liabilities and Warranty Provision	**1,830**	507
Deferred Revenues	**(463)**	(40)
	(2,663)	(444)
Warrants exercised receivable	**(50)**	-
Inventories transferred to Property, Plant and Equipment	**(421)**	-
	(3,134)	(444)
Research and Development Tax Credits		
Received	**199**	25

Notes to the Interim Condensed Consolidated Financial Statements

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(Unaudited, in thousands of US dollars, unless otherwise indicated)

15. Segmented Information

The Company is structured as a single operating segment.

Substantially all of our, property, plant and equipment as well as inventories are located in Canada.

Revenues are allocated between geographic areas based on the location of the client and are as follows for periods ended September 30:

	THIRD QUARTER				NINE MONTHS			
	2016		2015		**2016**		2015	
in thousands of US$	**$**	**%**	$	%	**$**	**%**	$	%
Canada	**51**	**1**	79	9	**218**	**2**	262	24
United States	**3,456**	**99**	835	91	**9,337**	**98**	835	76
	3,507	**100**	914	100	**9,555**	**100**	1,097	100

For the third quarter of 2016, revenue from Getinge represented 99% of the Company's total revenues in conjunction with Getinge and TSO_3's exclusive distribution agreement (91% for the same period in 2015). Shipments to Getinge were made in the United States.

16. Income (Loss) per Share

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

	THIRD QUARTER		NINE MONTHS	
In thousands of US dollars, except per share amounts	**2016 $**	2015 $	**2016 $**	2015 $
Net loss				
Basic and Diluted	**(1,473)**	(1,295)	(2,312)	(4,176)
Number of Shares				
Weighted Average Number of Outstanding Shares	**91,681,140**	82,916,519	90,432,166	81,406,817
Number of Shares				
Weighted Average Number of Outstanding Shares Diluted[1]	**91,681,140**	82,916,519	90,432,166	81,406,817
Loss per Share				
Basic and Diluted	**(0.02)**	(0.02)	(0.03)	(0.05)
Comprehensive loss per Share Basic and Diluted	**(0.02)**	(0.02)	(0.03)	(0.05)

1) If the Company had a positive profit, the weighted average number of outstanding shares diluted would have been increased by 4.8 million as of September 30, 2016 (3.1 million as of September 30, 2015) for the calculation of the diluted net loss per share.

17. Approval of Financial Statements

The interim condensed consolidated financial statements were approved by the Board of Directors on November 4, 2016.