2017 ANNUAL REPORT

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

Dear shareholders,

It is our pleasure to present you with the results for the year 2017. Overseeing strategy and managing risks we have continued to execute our vision “To Create and Deliver the New Standard of Care in Sterile Reprocessing”.

Strategic Review

Your Board closely engaged with management on strategic matters, providing guidance on how the Company can position itself for continued success. As a result of this strategic review, we concluded early in 2018 a co-commercialization agreement with Getinge Infection Control AB enabling TSO_3 to directly sell, service and support selected end-users in North America, as well as continue to support existing Getinge initiatives was in the best interest of the stakeholders of the Company; and once defined was efficiently executed. You will find a detailed discussion of our business, our areas of focus and our financial results, in this report.

Growth and Regulatory Matters

The Company continued the pursuit of growth and advancement opportunities for TSO_3 technology and product. This year, a record of 170 STERIZONE® VP4 Sterilizers was shipped to Getinge. We have also filed a submission with the *Food and Drug Administration* for extended claims for our sterilizer that would include duodenoscopes. We believe that this device and others similar will require terminal sterilization processes in the future and believe that our Company and technology is uniquely positioned to make and will continue to purse increased claims and compatibility with this market.

Engaging with our shareholders

We maintained an open and transparent dialogue with our shareholders and other stakeholders throughout the year. The year 2017 was an illustration of how important those relationships are as we have invited analysts and institutional investors to visit our facilities in Myrtle Beach, South Carolina, have held numerous conference calls and presented in different events.

With enthusiasm about the Company’s vision and the Board’s role of providing governance and oversight to management, the Board sees the opportunity and the global need for the Company’s technology, product and skills and look forward to representing the interest of the Company’s stakeholders in pursuit of this vision.

On a sadder note, we have lost our esteemed board colleague, Mr. Jean Lamarre. Jean was a fellow member of our board. We wish again to extend our sincere condolences to Jean’s family.

We thank you for your continued support.

Germain Carrière
Chairman of the Board

Richard M. Rumble
President and Chief Executive Officer

Overview

General Description

TSO_3 Inc. ("TSO_3" or the "Company") was founded in June 1998 in Québec City, Canada and employs 80 people as at December 31, 2017. The Company's activities encompass the sale, production, maintenance, research, development and licensing of sterilization processes, related consumable supplies and accessories for medical devices that are sensitive to heat and moisture. The Company designs products for sterile processing areas in medical facilities that offer an advantageous replacement solution to other low temperature sterilization and high-level disinfection processes currently used. TSO_3 also offers services related to the maintenance of sterilization equipment and compatibility testing of medical devices with such processes.

TSO_3 Corporation, the Company's wholly-owned subsidiary incorporated in 2015, is located in the State of South Carolina, USA and was established to meet US customer requirements. The US represents approximately 40% of the worldwide market for low-temperature sterilization equipment. The US location is used for sales and marketing, administration, engineering, warehousing and distribution of parts and consumables, laboratory services, conducting light assembly, and providing service and education to US customers.

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 the Company's STERIZONE® 125L+ Sterilizer, which was originally licensed by Health Canada (Canadian equivalent of the United States FDA) in 2009, CE marked in 2010 and of which the Company subsequently sold a number of units in Canada. These initial units have been upgraded to STERIZONE® VP4 Sterilizers and have been in continuous operation for a number of years.

In December 2014, TSO_3 achieved a major milestone when its STERIZONE® VP4 Sterilizer received 510(k) clearance from the Food and Drug Administration (FDA). In October 2015, the STERIZONE® VP4 Sterilizer received clearance from Health Canada to 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 the Company's 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.

The STERIZONE® Sterilization System has now achieved a number of industry-firsts:

- First and only dual-sterilant sterilizer cleared by the FDA for sale in the US;
- First single cycle, low-temperature sterilizer cleared in the US, Europe and Canada to process a 75-pound load of general instruments, single channel flexible endoscopes, and rigid and semi-rigid 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) up to 3.5 metres in length such as video colonoscopes and gastroscopes, along with duodenoscopes in Europe and Canada;

- First sterilizer validated and cleared to terminally sterilize duodenoscopes (Canada and Europe)
- 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.

As these technologies and claims are unique in the industry and significantly superior to incumbent technologies, the STERIZONE® Sterilization System can significantly improve efficiency, cost, risk mitigation and throughput in traditional central sterilization reprocessing departments in hospitals.

TSO_3's technologies also allow an industry first in terminal medical device sterilization: medical facilities now have an opportunity to terminally 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 robust solution than disinfection, since it involves a proprietary process that destroys all types of microbiological organisms, including bacterial spores.

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 have been transmitted after cleaning by high-level disinfection. Published reports confirm the significant health risk of device-related transfer of antibiotic resistant microbes, including patient injury or death.

TSO_3 has established laboratory data validating the STERIZONE® VP4 Sterilizer, with its dual sterilants of hydrogen peroxide and ozone, can repeatedly sterilize duodenoscopes used in endoscopic retrograde cholangio-pancreatography (ERCP) procedures. 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. TSO_3 is currently cleared for duodenoscopes in the Canadian and European markets and on July 20, 2017, the Company filed a 510(k) submission for its STERIZONE® VP4 Sterilizer for the terminal sterilization of duodenoscopes in the United States, the claim for which has not yet been granted by US regulators.

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 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.

Disinfection is significantly less effective than sterilization because it does not necessarily kill all harmful microorganisms, especially bacterial spores. Low temperature terminal sterilization offers an increased level of safety, since it involves a process that thoroughly destroys all types of microbiological organisms with a sterility assurance level of 10^{-6} (SAL^{-6}).

Competitive Landscape

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

The low-temperature vapour sterilization methods most commonly used today are hydrogen peroxide (H_2O_2) sterilization systems. These methods offer "terminal sterilization", which indicates the instruments are packaged and remain sterile until opened at the surgical site. 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 is used directly in the operating room as a just-in-time method to complement the central sterilization department's sterile production. The gastrointestinal department remains a heavy user of liquid chemical systems for the reprocessing of endoscopes. These systems are under increased scrutiny due to identified cases of patient to patient cross contamination of multidrug resistant bacteria.

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 instruments. TSO_3 technology brings its customers closer to a complete solution, and the extended claims cleared by the FDA demonstrate the truly superior capabilities of the STERIZONE® Sterilization System.

2017 Annual Review

Regulatory Status

In March 2016, the Company received FDA 510(k) clearance for a universal design of its STERIZONE® VP4 Sterilizer. The STERIZONE® VP4 Sterilizer was originally cleared for commercialization in the US in December 2014. The new clearance enables the Company to streamline assembly and shipping around a single sterilizer platform that meets global regulations for electromechanical design. The Company has now harmonized production around a single design, reducing inventory costs and complexity, while improving production rates and efficiency.

On July 4, 2016, TSO_3 announced that the FDA had also cleared TSO_3's expanded 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 the Company technology leadership – offering enhanced patient protection in applications where terminal sterilization was not previously possible.

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 MIS procedures. Disinfection is 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 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.

On July 20, 2017, the Company announced that it had filed a 510(k) submission with US regulators for its STERIZONE® VP4 Sterilizer for the terminal sterilization of duodenoscopes used in ERCP procedures. If awarded such claim, TSO_3's STERIZONE® VP4 Sterilizer would become the first and only validated sterilizer technology in the US with a cleared label claim for the terminal sterilization of duodenoscopes.

The Company's filing is supported by laboratory data that validates that the STERIZONE® VP4 Sterilizer, with its dual sterilants of hydrogen peroxide and ozone, can terminally sterilize multi-channel flexible endoscopes with a sealed distal end elevator mechanism (duodenovideoscopes). If achieved, the claim will match existing claims already made by the Company in Canada and Europe.

On September 7, 2017, the Company announced that the second largest hospital in Canada had completed the installation of multiple STERIZONE® VP4 Sterilizers and is now using these sterilizers to terminally process duodenoscopes used on patients undergoing ERCP procedures. TSO_3 also announced the successful completion of a routine Quality System compliance inspection by US regulators. The Company passed the inspection without any reportable findings – which is considerable given the recent expansion of the Company. The Company has and continues to follow a continuous improvement based regulatory compliance program which was commended by the regulators.

On September 27, 2017, the Company announced that it had received correspondence from US regulators pertaining to its submission for extended claims for the STERIZONE® VP4 Sterilizer in relation to the terminal sterilization of duodenoscopes. In their correspondence, US regulators requested clarification on certain aspects of the Company's proposed labeling consistent with the reprocessing of specific duodenoscopes using the STERIZONE® VP4 Sterilizer. In addition, acknowledging recent challenges that have impacted ERCP scopes, regulators have also asked for specific testing to be documented pertaining to what they describe as "challenge features" of the identified devices. This includes testing the integrity of the adhesive seal found at and under the distal endcap of the duodenoscope after sterilization processing.

The Company responded on November 16, 2017 and the response included a summary of results from tests evaluating the effect of TSO_3's sterilization process on specific features incorporated in the design of identified scopes, as well as additional labeling targeted at a selected duodenoscope. Lastly, in its response, the Company defined recommended device inspection and use intervals to assist end-users in their instrument surveillance when performing terminal sterilization of duodenoscopes within the STERIZONE® Sterilization System.

On December 19, 2017, the Company announced that it has had further dialogue with US regulators and had determined that the information the Company provided to the regulators addressed the majority of items listed within the initial additional information request. Regulators at the time recommended including additional data that specifically related to statements associated with compatibility and the Company began accumulating this data at that time. On March 19, 2018, the company provided its final Additional Information (AI) response to US regulators. In the response the Company included data on modified leak test experiments, testing to confirm lack of fluid ingress

occurring under the distal end cap of the devices, as well as real-world data from market research commissioned by TSO_3 reflecting the actual use-life of duodenoscopes.

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 worldwide global distributor rights to TSO_3's STERIZONE® VP4 Sterilizer in exchange for $7.5 million plus performance minimums. In association with the Getinge Agreement, TSO_3 received purchase orders from Getinge in December of 2015 and 2016. The Company shipped 110 and 170 STERIZONE® VP4 Sterilizers in 2016 and 2017 respectively in full fulfillment of those purchase orders. These shipments supplied Getinge with sterilizers for sale to end users, and allowed the Company to establish higher volume production, production capacities, purchasing methodologies, cost improvements and supply chain structures. In November 2017, the Company indicated that over 50 STERIZONE®VP4 Sterilizers had been delivered to end users in Canada and in the United States.

Sales under the Getinge Agreement are made in US dollars to Getinge. The Company recognizes revenue when it sells its sterilizers to Getinge. Getinge is also receiving ongoing technical support from TSO_3 as part of the Getinge Agreement.

The performance requirements in the Getinge Agreement involve minimum annual unit purchase commitments from Getinge and fulfillment obligations by TSO_3. Getinge must provide a purchase order to be obligated to buy units under its minimum annual commitments, and as January 1st, 2018, Getinge has not yet provided such a purchase order for sterilizers in 2018.

On January 25, 2018, the Company entered into a co-commercialization agreement (the "Sales and Repurchase Agreement") with Getinge in a joint effort to increase sales to end users and optimize the customer experience. The Sales and Repurchase Agreement allows the Company to sell its STERIZONE® VP4 Sterilizers and associated products and services directly into the United States and Canada and repurchase not less than 100 STERIZONE® VP4 Sterilizers for $3.3 million. Getinge will continue to sell STERIZONE® VP4 Sterilizers in North America and the rest of the world and the parties have agreed to a customer selection mechanism to prevent the likelihood of channel conflict.

The parties have begun negotiations on additional modifications to the distribution relationship, either through a new agreement or a modification of the Getinge Agreement, with the objective of further increasing the speed, flexibility and effectiveness of the relationship. The Sales and Repurchase Agreement and the Getinge Agreement will terminate on August 1, 2018 unless extended by mutual agreement. If agreement between the parties is not reached, TSO_3 has agreed, by July 1, 2019, to repurchase Getinge's remaining STERIZONE® VP4 Sterilizers at the same unit price in the Sales and Repurchase Agreement. In the event the Getinge Agreement terminates, Getinge would lose licensing and other rights made available by the agreement, and the Company's only other recourse against Getinge would be to retain in full the $7.5 million license fee payment made by Getinge when the Getinge Agreement was entered into and require Getinge to accept delivery and pay for units under any then outstanding purchase orders.

The Getinge Agreement also contains termination provisions in favour of Getinge, should TSO_3 ever be in a material breach which is not cured within 90 days of a notice from Getinge or in certain circumstances in the event of a change of control of the Company. Under such a termination by Getinge, the Company shall pay a termination fee to Getinge equal to the greater of: (i) five million US dollars or two times Getinge's prior twelve months revenues with the products for a termination within the first or second year of the agreement, (ii) seven million five hundred thousand US dollars or one and a half times Getinge's prior twelve months revenues with the products for a termination within the third year of the agreement, or (iii) ten million U.S. dollars or one time Getinge's prior twelve months revenues with the products for a termination within the fourth or fifth year of the agreement.

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, with TSO_3's support, is selling and installing the STERIZONE® VP4 Sterilizers into US hospitals and initial feedback from end customers has been strong.

Supply Chain Financing

In December 2016, TSO_3 secured access to an automated receivable factoring program through a joint effort with Getinge and a Getinge global banking partner. This program provides a simple and inexpensive instrument for Getinge and TSO_3 to finance working capital. Under this program, TSO_3 may at any time factor (sell to the bank) up to 100% of the outstanding receivables that Getinge posts to the program in exchange for a small discount.

Getinge currently represents substantially all of TSO_3's revenue and trade accounts receivable. Payment terms for invoices Getinge posts to this program are 90 days from invoice date, rather than standard 45 day terms. There are no bank setup fees associated with this program and TSO_3 has full independent discretion as to whether it shall or shall not factor any or all posted receivables.

TSO_3 has used the program during the year of 2017.

European Expansion

Getinge continued to launch the STERIZONE® VP4 Sterilizer in Europe in 2017. Key sales and marketing staff have been hired by Getinge and training sessions have occurred.

In 2016, in support of a planned European product launch in the first quarter of 2017, TSO_3 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 – an approach favoured by many European hospitals. While the double door option is less popular in the US, the Company plans to pursue clearance to sell the device in the US in the ordinary course.

In addition to completing the double door development, the Company 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.

Intellectual Property

Considering the time and investment required to develop new products and obtain marketing authorization, the Company places considerable importance on protecting its research findings, trade secrets and technologies. As of December 31, 2017, TSO_3 had 185 patents or patent applications pending, with 91 relating specifically to the Company's STERIZONE® VP4 Sterilizer and related technology. TSO_3 relies on a combination of patents, laws, trade secrets, non-disclosure agreements and various contractual arrangements to protect its exclusive technology. There is no guarantee that TSO_3's protective measures are enforceable or sufficient to prevent illicit appropriation of its technology or development of the same or similar technology by a third party.

On September 29, 2010, TSO_3 filed patent applications for its innovations related to hydrogen peroxide alone and hydrogen peroxide and ozone sterilization systems and methods to be protected in the United States, Europe and various other countries including Japan.

During the first quarter of 2013, and in 2015, TSO_3 filed a number of divisional patent applications in all of the countries mentioned above to protect most of individual innovative concepts disclosed in the

original application. Several patents on technology embedded in the STERIZONE® Sterilization System have now been granted while the other applications are still pending.

In September 2014, TSO_3 filed a new International patent application on its innovative methods to further improve compatibility under differing load conditions for surgical instruments and accessories.

In 2015, the US Patent Office and the Canadian Patent Office each granted to the Company a first patent on a core aspect of the technology embedded in the TSO_3 STERIZONE® Sterilization System. Also in 2015, six additional Japanese patents have been granted (seven granted patents) while the European Patent Office notified its decision to grant two additional patents (seven granted patents in force in up to 13 European countries).

At the end of 2015, TSO_3 also filed new US and international patent applications related to biological indicators (BI) used to monitor effectiveness of a sterilization process.

In 2016, the US Patent Office granted to the Company six additional patents covering important aspects of TSO_3's technology and mostly embedded in the STERIZONE® VP4 Sterilizer.

Also in 2016:

- TSO_3 filed new divisional patent applications covering additional critical aspects of TSO_3's technology in US and Europe to still strengthen patent protection of the STERIZONE® Sterilization System;
- A first patent covering the technology embedded in the STERIZONE® VP4 Sterilizer has been granted in Mexico to further expand the geographical patent protection coverage of the Company;
- An International Patent Application previously filed on innovative methods to further improve compatibility under differing load conditions has now entered the national phase in several countries, including the United States.

In 2017, the US Patent Office and the Japanese patent Office each granted to the Company an additional patent covering a critical aspect of TSO_3's technology to further strengthen patent protection of the STERIZONE® Sterilization System.

The Canadian Patent Office also granted to the Company five additional patents on distinct important aspects of TSO_3's technology mostly embedded in the STERIZONE® Sterilization System.

Five additional patents have been granted in Mexico while seven patents have been granted in South Korea to further expand the geographical patent protection coverage of the STERIZONE® Sterilization System.

Also in 2017, the Australian Patent Office and the Patent Office of South Africa each granted to the Company a patent on its innovative methods to further improve compatibility under differing load conditions for surgical instruments and accessories.

Still in 2017, an International Patent Application previously filed on biological indicators (BI) used to monitor effectiveness of a sterilization process entered the national phase in several countries.

Other patent applications are still pending in the United States as well as elsewhere in the world. TSO_3's unique *Dynamic Sterilant Delivery System*™ is core to the differentiation of its products and its protection enhances the Company's value.

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

2018 Focus

On January 25, 2018, the Company entered into the Sales and Repurchase Agreement with Getinge. Rather than relying solely on Getinge for the Company's source of revenue and commercialization success, the Company and Getinge have agreed to share the US and Canadian market and co-commercialize the Company's STERIZONE® VP4 Sterilizer, while Getinge retains the rights and responsibility for commercializing in the rest of the world. As a result of the Sales and Repurchase Agreement, the Company plans to sell its STERIZONE® VP4 Sterilizers and associated products and services directly into the United States and Canada and repurchase up to 100 sterilizers (for $3.3 million) back from Getinge as a source of Company product inventory for future sales. By combining forces, reducing the Company's distributor inventory at a cost lower than the Company's manufacturing cost, and implementing an effective customer selection mechanism to prevent the likelihood of channel conflict, both parties are taking effective action steps toward accelerating commercialization and addressing inventory levels.

According to the terms of the Sales and Repurchase Agreement, both that agreement and the Getinge Agreement automatically terminate on August 1, 2018, unless otherwise extended to by mutual agreement of the parties. Good faith negotiations have begun by both parties to either replace or amend the existing agreements, with the stated mutual goal to work toward a new and improved business arrangement. While negotiations are in place, both Getinge and TSO_3 will be working toward selling Getinge's existing inventory, including the Company's direct sales of inventory repurchased from Getinge.

The Company is redirecting some of its internal resources toward sales and marketing, and has completed the initial build out of the Company's team of experienced sales, clinical and field service professionals. These professionals are now immediately tasked with selling and providing support directly to end users in the central sterilization (CSSD) department of acute care hospitals, as well as to develop additional opportunities in the gastrointestinal reprocessing market segment. Based on customer feedback the Company has received, the Company is able to provide sales and customer support at industry leading levels. TSO_3 will also continue to support Getinge in the sale, support, installation and servicing of existing and future customers.

The Company plans to conduct additional training and sales meetings and further invest in marketing and sales collateral in support of the deployment of the STERIZONE® VP4 Sterilizers in the United States and Europe, and will continue to work collaboratively with Getinge with respect to launching into additional targeted international markets.

Additionally, the Company will continue to use its laboratories in support of its traditional device compatibility testing, endoscope compatibility testing and our new product development initiatives. Such efforts will help the Company to demonstrate to manufacturers, Getinge and hospitals the impact its technologies can have on medical devices, reprocessing efficiency, effectiveness, throughput and simplicity, as well as endoscope terminal sterilization.

The Company expects to experience additional demand for consumables, warranty and service related activities, as more of the Company's STERIZONE® VP4 Sterilizers are installed in hospitals and other medical facilities. The Company will continue to expand its consumables production and delivery capabilities in Canada, in the United States and in Europe.

The Company will continue to pursue its 510(k) submission with US regulators for the terminal sterilization of duodenoscopes used in ERCP procedures. If awarded such claim, TSO_3's STERIZONE® VP4 Sterilizer would become the first and only validated sterilizer technology in the US with a cleared label claim for the terminal sterilization of duodenoscopes.

Over the past years the Company has continued to invest in developing product enhancements. TSO_3 and Getinge have discussed these feature improvements, which will make installations faster and easier. In the interim, TSO_3 is planning to adjust, for a charge, inventory currently held by Getinge, as these product enhancements have been deliberately designed to be fully "upgradable" with current versions of the sterilizer. These adjustments are described in the Sales and Repurchase Agreement.

Management Discussion and Analysis

This management discussion and analysis (MD&A) is intended to help readers assess the consolidated financial position and consolidated financial performance of TSO_3 Inc. ("TSO_3", or the "Company") for the twelve-month period ended December 31, 2017 and to compare them with the twelve-month period ended December 31, 2016. This information is dated March 20, 2018 and should be read in conjunction with the Annual Audited Consolidated Financial Statements and the accompanying notes. Unless specified otherwise, all amounts are stated in US dollars.

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

The Annual Audited Consolidated Financial Statements, accompanying notes and MD&A have been reviewed by the Audit Committee and Risk Management of TSO_3 and approved by the Board of Directors.

This MD&A contains forward-looking information. A statement about the forward-looking information is made in the next section. Also, the reader should review the section on Risk Factors discussing some of the risks and uncertainties that may have a material adverse effect on the Company's business, results of operations, or financial condition as well as on an investment in the Company's securities.

Additional information regarding TSO_3 can be found in its Annual Information Form, and under TSO_3's issuer profile on SEDAR at (www.sedar.com) and TSO_3's website at www.tso3.com.

Forward Looking Statements

Certain statements contained in this report and the MD&A constitute forward-looking statements. These statements relate to future events or the Company's future performance, business prospects or opportunities and product development. All statements other than statements of historical facts may be forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "plan", "continue", "estimate", "expect, "may", "will", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe" and similar expressions. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements.

The Company believes that the expectations reflected in these forward-looking statements are reasonable, but no assurance can be given that these expectations will prove to be correct. These statements speak only as of the date of this report. Such statements are based on a number of assumptions which may prove to be incorrect, including, but not limited to, assumptions about:

- The success of the relationship with Getinge and suppliers;
- The ability for the Company and Getinge to deploy TSO_3's products to end customers;
- The ability for the Company to market and sell its products;
- Business and economic conditions;
- The ability to obtain sufficient quantities of supplies and materials when needed;
- The ability to obtain regulatory authorizations that are required to market its product;
- The ability to attract and retain skilled staff;
- Regulatory Approvals;
- Competition;
- Tax benefits and tax rates;
- The ability to complete research and development work;
- Foreign currency exchange rates;

- The ability for the Company to attract capital and other financial risks;
- The compatibility of medical instruments with the Company's technology.

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, limited history of commercialization, management of business growth, intellectual property and counterfeiting, competition, product liability issues, litigation, regulatory approvals and financial instruments. Actual results and developments are likely to differ, and may differ materially, from those expressed or implied by the forward-looking statements. Factors that could cause actual results to differ materially include, but are not limited to, the risk factors described under the section "Risk factors" in the Annual MD&A of the Company for the year ended December 31, 2017, which reflect to the Company's knowledge, the material risks and uncertainties it faced as at March 20, 2018, the date of filing for the fiscal year 2017. Disclosure contained in this document is current to that date, unless otherwise stated.

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

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

Summary of Results

Periods ended December 31 (Audited, IFRS Basis, in thousands of US dollars, except per share amounts)

	2017	2016
	$	$
Revenues	**19,726**	13,301
Cost of sales	**12,068**	9,188
Gross profit	**7,658**	4,113
Expenses		
Research and development	**6,222**	3,512
Selling, general and administrative	**8,728**	6,529
Financial expenses (income)	**132**	(1,658)
Total Expenses	**15,082**	8,383
Net loss before income taxes	**(7,424)**	(4,270)
Income taxes	**30**	109
Net loss and comprehensive loss	**(7,454)**	(4,379)
Weighted average number of outstanding shares (in thousands)	**92,508**	90,810
Basic and diluted net loss per share	**(0.08)**	(0.05)
Basic and diluted net comprehensive loss per share	**(0.08)**	(0.05)

Results Analysis

Below, the Company discusses the variations of certain accounts for the periods ending December 31, 2017 and 2016.

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

REVENUES

For the year 2017, revenues equalled $19.7 million, as compared to $13.3 million in 2016. TSO_3 shipped 170 STERIZONE® VP4 Sterilizers to Getinge and recorded $0.9 million of Getinge licensing revenue in 2017 as compared to 110 units shipped and $0.6 million of licensing revenue in 2016. Sales of the Company's proprietary consumables in the year of 2017 also grew relative to 2016 as a result of increased installations of the Company's STERIZONE® VP4 Sterilizer, contributing to the Company's total revenue growth and offsetting a decline in accessory revenue in the same periods.

NET LOSS

In the fiscal year of 2017, net loss and comprehensive loss totaled $7.5 million or $0.08 per share, as compared to $4.4 million or $0.05 per share of net loss and comprehensive loss, which includes a one-time foreign exchange gain of $1.6 million following the change in functional currency from Canadian dollars to US dollars.

In 2017, gross profit increased by $3.5 million, as compared to last year, mainly related to increased sales of the STERIZONE® VP4 Sterilizers to Getinge offset by the increase of investments of $2.8 million made in research and development activities and $2.2 million in sales, general and administrative activities to support the business.

In 2017, $1.0 million of the increase in expenses resulted from growth in recorded non-cash stock compensation expense as compared to last year. Share-based compensation amortization grew as the Company issued stock options to new and existing employees and, as a result of the price of TSO_3 stock being higher at the time of grant than in prior periods, the Black-Scholes value of each option, which is the basis on which the Company calculates stock compensation expense, was higher relative to prior years.

For the year 2017, the Company incurred no material events which would have impacted its comprehensive loss.

Supplemental Non-IFRS Financial Measures

This MD&A was prepared using results and financial information determined under IFRS. In addition to IFRS financial measures, management uses non-IFRS financial measures to assess the Company's operational performance. It is likely that the non-IFRS financial measures used by the Company will not be comparable to similar measures reported by other issuers or those used by financial analysts as their measures may have different definitions. The measures used by the Company are intended to provide additional information and should not be considered in isolation or as a substitute for IFRS financial performance measures.

Generally, a non-IFRS financial measure is a numerical measure of an entity's historical or future financial performance, financial position or cash flows that is neither calculated nor recognized under IFRS. Management believes that such non-IFRS financial measures are important as they provide users of the financial statements with a better understanding of the results of the Company's recurring operations and their related trends, while increasing transparency and clarity into its operating results. Management also believes these measures can be useful in assessing the Company's capacity to discharge its financial obligations.

Management is assessing its operational performance using supplemental non-IFRS measures which removes significant unusual items that do not reflect the recurring and ongoing operational results and trends. The associated adjustments in 2016 included the removal of a one-time expense associated with a commitment to purchase of raw materials made in the year but made obsolete by improvements in installation alternatives in response to feedback from end customers, and a significant change in foreign exchange gain recorded in the first quarter of 2016, which resulted in the calculation of adjusted EBITDA.

IFRS TO NON-IFRS ADJUSTED EBITDA RECONCILIATION

				2017				2016
$000's	**Q4**	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Net income (loss)	**(1,449)**	(1,771)	(2,254)	(1,980)	(2,068)	(1,473)	(1,487)	649
Significant realized and unrealized foreign exchange gains	**-**	**-**	-	-	-	-	-	(1,578)
Financial expenses (income)	**74**	48	49	(39)	(69)	(50)	-	(10)
Amortization and depreciation	**246**	331	221	168	120	147	103	77
Share-based compensation expense	**301**	632	592	609	286	333	268	216
One-time write-off of inventory	**-**	-	-	-	312	-	-	-
Income taxes	**(59)**	33	29	27	48	15	(12)	58
Adjusted Ebitda	**(887)**	(727)	(1,363)	(1,215)	(1,371)	(1,028)	(1,128)	(588)

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

The fourth quarter of 2016 was impacted by a one-time write-off of inventory of $0.3 million associated with a commitment to purchase of raw materials made in the year, but made obsolete by improvements in installation alternatives in response to feedback from end customers.

The first quarter of 2016 was impacted by a significant foreign exchange gain realized of $1.6 million on the translation of Canadian dollar denominated monetary assets and liabilities following the change in functional currency from Canadian dollars to US dollars.

Adjusted EBITDA, is adjusted Earnings before Interest, Taxes, Depreciation, and Amortization (Adjusted EBITDA). Adjusted EBITDA adjusts net income for (1) significant realized and unrealized foreign exchange gains or losses, (2) financial expenses (income), (3) amortization and depreciation expenses (4) share-based compensation expense, (5) write-downs of certain tangible and intangible assets, (6) one-time write-off of inventory, (7) income taxes, and (8) other significant unusual items.

EXPENSES

Foreign Exchange Impact

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.

A significant portion of the Company's expenses are denominated in Canadian dollars. Fluctuations in the value of Canadian dollars relative to US dollars will have an impact on the Company's operating results to the extent expenses in Canadian dollars are not offset by revenues in the same currency. The Company currently does not otherwise hedge against foreign exchange rate fluctuations.

In the year 2017, total expenses denominated in Canadian dollars were CAD$16.3 million, as compared to CAD$14.9 million in the year 2016. The average USD/CAD foreign exchange rate in the year of 2017 was 0.7711 as compared to 0.7550 in 2016, which is reflected in an increase in expenses of 2% year over year upon conversion to USD. The USD/CAD foreign exchange rate in the fourth quarter of 2017 was 0.7867 as compared to 0.7494 in the fourth quarter of 2016, which is reflected in a increase in expenses of 5% year over year upon conversion to USD.

In 2017, total cost of sales related expenses denominated in Canadian dollars were CAD$9.9 million, as compared to CAD$7.7 million in 2016. Similarly, total research and development expenses denominated in Canadian dollars were CAD$3.2 million, as compared to CAD$3.5 million in 2016, and total SG&A expenses denominated in Canadian dollars were CAD$3.2 million, as compared to CAD$3.7 million in 2016.

From a quarterly sequential perspective, the USD/CAD foreign exchange rate in the fourth quarter of 2017 was 0.7867 as compared to 0.7983 in the third quarter of 2017, which is reflected in a decrease in expenses of 1% quarter over quarter upon conversion to USD.

In the fourth quarter of 2017, total cost of sales related expenses denominated in Canadian dollars were CAD$2.4 million, as compared to CAD$2.3 million in the fourth quarter of 2016. In the same comparison periods, total research and development expenses denominated in Canadian dollars were CAD$1.1 million in the fourth quarter of 2017, as compared to CAD$0.8 million in the fourth quarter of 2016, and total SG&A expenses denominated in Canadian dollars were CAD$0.8 million in the fourth quarter of 2017, as compared to CAD$0.7 million in the fourth quarter of 2016.

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 fiscal year ended December 31, 2017, cost of sales amounted to $12.1 million, as compared to $9.2 million in 2016. In 2017, TSO_3 shipped 170 STERIZONE® VP4 Sterilizers as compared to 110 sterilizers in 2016.

Gross profit was $7.7 million, or 39% of revenue in 2017, as compared to $4.1 million, or 31% of revenue in 2016. This increase in gross margin contribution in 2017 resulted from growth of higher gross margin consumables sales and production cost reductions of STERIZONE® VP4 Sterilizers which, more than offset a decrease in gross profit contribution from accessories revenues.

Cost of sales increased by $0.2 million, or 1% of sales, due to changes in foreign currency exchange rates as compared to last year.

Research and development

For the fiscal year ended December 31, 2017, research and development expenses were $6.2 million, as compared to $3.5 million for the same period in 2016. For the year 2017, the Company incurred $1.0 million of additional expenses related to material purchases, equipment maintenance, depreciation and building expenses to run the laboratory in Myrtle Beach. Also, these expenses were for extended endoscope regulatory claims, other endoscope and medical device compatibility studies for its STERIZONE® VP4 Sterilizer. To support project development and the new laboratory, the Company also increased salary, share-based compensation, travelling expenses and professional fees by $1.7 million in 2017.

Selling, General and Administrative (SG&A)

Selling, general and administrative (SG&A) include marketing, sales and service and administrative expenses. SG&A expenses were $8.7 million for the year 2017, as compared to $6.5 million in 2016, with $0.8 million of this growth as a result of an increase in non-cash stock compensation expense.

During the year 2017, as compared to last year, the Company incurred an additional $1.0 million in salary, travelling and recruiting fees as a result of an expansion of its management team, and $0.2 million in professional fees associated with commercialization, marketing and administration.

Share-based compensation expense

For the year ended December 31, 2017, non-cash share-based compensation amortization amounted to $2.1 million, as compared to $1.1 million in 2016.

As at December 31, 2017, the Company had 7.9 million stock options oustanding, as compared to 7.0 million in 2016. 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.

These expenses are presented in the Consolidated Statements of Loss and Comprehensive Loss in the expense line items which correspond to the functions of the equity incentive holders.

Financial expenses (income)

For the fiscal year ended December 31, 2017, financial expense was at $0.1 million, as compared to a financial income of $1.7 million in 2016. Financial income recorded in 2016 included a $1.6 million significant change in foreign exchange translation gain recorded as a result of the conversion of Canadian dollars into US dollars during the first quarter of 2016.

Financial Position Analysis

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

	2017	2016
	$	$
Cash, cash equivalents and investments (short and long term)	**14,808**	19,260
Accounts receivable	**651**	2,318
Inventories	**2,040**	1,703
Property, plant and equipment	**3,184**	2,357
Intangibles assets	**1,886**	1,836
Accounts payable, accrued liabilities, current and deferred income tax liabilities	**2,515**	2,381
Warranty provision	**1,263**	575
Deferred revenues (short and long term)	**6,050**	6,949
Equity	**12,891**	17,671

Liquid Assets

As at December 31, 2017, cash, cash equivalents and investments amounted to $14.8 million, as compared to $19.3 million as at December 31, 2016.

During 2017, the Company used approximately $4.5 million in cash from operations, excluding the effects of changes in working capital, representing the same amount in 2016 (when excluding the one-time $1.6 million foreign exchange translation gain). The Company generated $1.1 million in cash for non-cash working capital principally as a result of using its program to discount outstanding invoices from Getinge. This compares to $2.6 million used as non-cash working capital in 2016.

Accounts Receivable

As at December 31, 2017, accounts receivable amounted to $0.7 million, as compared to $2.3 million as at December 31, 2016. As at December 31, 2017 receivables were mainly related to R&D and sales tax credits, while receivables, as at December 31, 2016, also included a significant amount receivable from Getinge. In 2017, the Company used the automated receivable factoring program for almost all accounts receivable from Getinge.

Inventories

As at December 31, 2017, inventories amounted to $2.0 million, as compared to $1.7 million as at December 31, 2016.

	2017 **$**	2016 $
Raw Materials	**1,137**	1,023
Work in Progress	**242**	137
Finished Goods	**661**	543
	2,040	1,703

In 2017, the Company grew its inventories to support the growth of sales of STERIZONE® VP4 Sterilizers to Getinge and to build supply of parts for products to be delivered in 2018.

Property, Plant and Equipment

Property, plant and equipment, net of depreciation, amounted to $3.2 million as at December 31, 2017 which is $0.8 million higher compared to December 31, 2016. During the year of 2017, TSO_3 acquired a total of $1.6 million in property, plant and equipment. Of this amount, $0.3 million was acquired in equipment and tools, $0.5 million in medical devices and $0.4 million in sterilizers for use in its laboratories. Depreciation increased by $0.8 million during the year 2017.

Intangible Assets

Intangible assets, net of amortization, increased from $1.8 million at the end of 2016 to $1.9 million as at December 31, 2017. The Company invested $0.2 million in patents which was partially offset by amortization over the period.

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

As at December 31, 2017, accounts payable, accrued liabilities, current and deferred income tax liabilities amounted to $2.5 million, which is $0.1 million higher compared to December 31, 2016. The increase is due to accounts payable. As at December 31, 2017 the Company had $0.1 million as deferred income tax assets compared to $0.1 million of deferred income tax liabilities as at December 31, 2016.

Deferred Revenues

At the end of the year, deferred revenues represented almost exclusively the unamortized part of the deferred license revenue received under the Getinge Agreement.

During the year of 2017, the Company recorded $0.9 million of license revenue, which is recorded as revenue as services are rendered and products are delivered over the term of the Getinge Agreement, as compared to $0.6 million in 2016. The increase in license revenue is consistent with 170 STERIZONE® VP4 sterilizers being shipped in 2017, compared to 110 units in 2016.

Shareholders' Equity

As at December 31, 2017, Shareholders' Equity amounted to $12.6 million, as compared to $17.7 million as at December 31, 2016. The variation is mainly the result of the absorption of the operating deficit incurred during the year of 2017, partially offset by $2.1 million in share-based compensation recognized during the same period.

As at December 31, 2017, the number of outstanding shares was 92,854,304 (91,977,214 as at December 31, 2016). As of March 20, 2018, the date of filing for the year 2017, the number of outstanding shares was 92,891,304.

Cash Flows Analysis

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

	2017 $	2016 $
Operating Activities	**(3,130)**	(5,390)
Investing Activities	**7,936**	(15,430)
Financing Activities	**540**	10,864

Operating Activities

Cash used by the operating activities amounted to $3.1 million for the fiscal year 2017, as compared to $5.4 million consumed in 2016. In 2017, the Company generated $1.1 million in cash from working capital adjustments ($2.6 million used in 2016), and consumed $4.4 million in net loss after adjusting for non-cash items ($2.9 million in net loss in 2016 including the $1.6 million foreign exchange translation gain from the translation of Canadian dollars into US dollars).

Investing Activities

For the fiscal year ended December 31, 2017, investing activities generated $7.9 million, as compared to $15.4 million consumed in 2016. In 2017, the Company generated $9.7 million from the net disposal of short and long term investments and used $1.8 million to purchase property plant and equipment and intangible assets in 2017, as compared to using $14.0 million for net acquisition in investments and $1.4 million in property plant and equipment and intangible assets in 2016.

Financing Activities

For the fiscal year ended December 31, 2017, financing activities generated $0.5 million as compared to $10.9 million in 2016. The total amount generated in 2017 was from options exercised while $10.1 million in 2016 was from warrant exercises expiring in 2016.

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.

				2017				2016
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenues	**5,780**	5,105	4,630	4,211	3,746	3,507	2,977	3,071
Net income (loss)	**(1,449)**	(1,771)	(2,254)	(1,980)	(2,068)	(1,473)	(1,487)	649
Net income (loss) per Share (basic, in $)	**(0.02)**	(0.02)	(0.02)	(0.02)	(0.02)	(0.02)	(0.02)	0.01

Fourth Quarter Analysis

(Unaudited, IFRS Basis, USD$ except share figures)

Three-month period ended December 31, 2017, compared to the three-month period ended December 31, 2016:

	Fourth Quarter 2017 $	Fourth Quarter 2016 $
Revenues	**5,780**	3,746
Cost of sales	**3,455**	2,716
Gross profit	**2,325**	1,030
Expenses		
Research and development	**1,766**	1,297
Selling, general and administrative	**1,993**	1,774
Financial expenses (income)	**74**	(21)
Total Expenses	**3,833**	3,050
Net loss before income taxes	**(1,508)**	(2,020)
Income taxes	**(59)**	48
Net loss and comprehensive loss	**(1,449)**	(2,068)
Weighted average number of outstanding shares (in thousands)	**92,508**	90,810
Basic and diluted net loss per share	**(0.02)**	(0.02)
Basic and diluted net comprehensive loss per share	**(0.02)**	(0.02)

SALES

For the three-month period ended December 31, 2017, total revenues amounted to $5.8 million, as compared to $3.7 million for the same period in 2016. During the fourth quarter of 2017, the Company shipped 50 STERIZONE® VP4 Sterilizers to Getinge, and recorded revenue from associated license fees and consumables. TSO_3 ship 30 sterilizers in the fourth quarter of 2016.

NET LOSS

For the three-month period ended December 31, 2017, the Company recorded a net loss of $1.4 million, or $0.02 per share, as compared to a net loss of $2.1 million, or $0.02 per share for the same period in 2016.

Gross profit contribution from revenues recorded in the fourth quarter of 2017 partially offset higher operating costs that the Company incurred in the fourth quarter of 2017, relative to the fourth quarter of 2016, in association with the increase of investments in research and development and in sales, general and administrative activities to support its growing business.

EXPENSES

Cost of sales

For the three-month period ended December 31, 2017, cost of sales amounted to $3.5 million, as compared to $2.7 million for the same period in 2016. Gross profit was $2.3 million, or 40% of revenue in 2017, as compared to $1.0 million, or 28% of revenue in 2016. This increase in the fourth quarter of 2017 gross profit margin, as compared to 2016, resulted predominantly from higher shipments of STERIZONE® VP4 Sterilizers, higher gross margin consumables sales and production cost reduction of STERIZONE® VP4 Sterilizers which, more than offset a decrease in accessories revenues. During the fourth quarter of 2016, the Company recorded a one-time expense of $0.3 million associated with a commitment to purchase of raw materials made in the year, but made obsolete by improvements in installation alternatives in response to feedback from end customers. Excluding this one-time write-off, gross-profit would have been $1.3 million, or 36% of revenue in the fourth quarter of 2016.

Cost of sales increases by $0.1 million, or 2% of sales, due to foreign exchange movement as compared to last year.

Research and development

For the three month-period ended December 31, 2017, research and development expenses amounted to $1.8 million, as compared to expenses of $1.3 million for the same period in 2016. For the three-month period ended December 31, 2017, the Company incurred $0.3 million of additional expenses related to material purchases, equipment maintenance, depreciation and building expenses to run the laboratory in Myrtle Beach. Also, these expenses were for extended endoscope regulatory claims, and other endoscope and medical device compatibility studies for its STERIZONE® VP4 Sterilizer. To support project development and the new laboratory, the Company also increased salary, share-based compensation, travelling expenses and professional fees by $0.2 million in the fourth quarter of 2017 as compared to the same period last year.

Selling, General and Administration (SG&A)

Selling, general and administrative (SG&A) include marketing, sales and service and administrative expenses. SG&A expenses were $2.0 million for the quarter ended December 31, 2017, as compared to $1.8 million for the the same period in 2016. The increase is mainly related to an additional $0.1 million in salary, travelling and recruiting fees as it expanded its management team.

Cash Flows Analysis

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

	Fourth Quarter	
	2017	2016
	$	$
Operating Activities	**(673)**	(1,053)
Investing Activities	**1,075**	(475)
Financing Activities	**-**	47

Operating Activities

Cash used by the operating activities amounted to $0.7 million for the three-month period ended December 31, 2017, as compared to $1.1 million used during the same period in 2016. In the fourth quarter of 2017, the Company generated $0.3 million in cash from working capital adjustments ($0.5 million used in 2016), and consumed $0.9 million in net loss after adjusting for non-cash items ($1.6 million in net loss in 2016).

Investing Activities

For the three-month period ended December 31, 2017, investing activities generated $1.1 million, as compared to $0.5 million consumed in 2016; an increase resulting from the net disposal of $1.6 million in short and long term investments and the purchase of $0.5 million in property plant and equipment and intangible assets in the fourth quarter of 2017, as compared to $0.04 million of net disposal in investments and $0.5 million in property plant and equipment and intangible assets in the fourth quarter of 2016.

Financing Activities

Cash generated from financing activities were immaterial in both fourth quarter of 2017 and 2016. For the three-month period ended December 31, 2017, no financing activities occurred, as compared to $0.04 million for the same period in 2016.

Segmented Information

The Company has one operating segment.

	Fourth quarter		Twelve months	
Revenues	**2017**	2016	**2017**	2016
Canada and Worldwide	**154**	118	**424**	336
United States	**5,686**	3,628	**19,362**	12,965
	5,840	3,746	**19,786**	13,301

	December 31, 2017			December 31, 2016		
	Inventories	**Property, Plant and Equipment**	**Intangible Assets**	Inventories	Property, Plant and Equipment	Intangible Assets
Canada and Worldwide	**1,616**	**1,306**	**1,870**	1,638	1,069	1,836
United States	**424**	**1,878**	**16**	65	1,288	-
	2,040	**3,184**	**1,886**	1,703	2,357	1,836

For the year 2017, revenue from Getinge represented 98% of the Company's total revenues in conjunction with the Getinge Agreement (same percentage in 2016).

Contractual Commitments

As at December 31, 2017, the contractual commitments in the fiscal years to come are as follows:

	2018	2019	2020	2021	2022
In thousands of US$	$	$	$	$	$
Operating leases and service contracts	262	190	158	6	6

Operating leases relate to leases of premises with lease terms of one or five years. The Company does not have an option to purchase the leased premises at the expiry of the lease periods. For the year ended December 31, 2017, lease expenses were $0.3 million ($0.2 million for the year ended December 31, 2016).

Off-Balance Sheet Arrangement

The Company made no off-balance sheet arrangement during the fourth quarter of 2017 other than purchase orders issued in the normal course of business.

Additional Disclosure – Unrecorded Tax Assets

The Company has accumulated a substantial amount of losses, unclaimed expenses and tax credits that could be claimed in the future to reduce income taxes. The related deferred income tax assets will be recorded on the Condensed Consolidated Financial Statements only when the Company concludes that these tax assets will probably be materialized by shielding profits from taxes, or otherwise. If the Company had reached this conclusion on December 31, 2017, $23.7 million in tax assets would have been recorded based on an effective rate of 15% for federal taxes and 11.5% for provincial taxes ($20.0 million as at December 31, 2016).

Capital Resources

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

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 equity financings and, to a small extent, through government grants and tax credits.

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

Accounting Policies

The reader is refered to notes 2 and 3 of the Company's Annual Audited Consolidated Financial Statements for the year ended December 31, 2017 for a detailed presentation of accounting policies, critical accounting judgments, key source of estimation uncertainty and future accounting changes.

Risk Factors

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

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

Limited Sales and Revenue History and a History of Losses

Fiscal year 2017 representated the second year that TSO_3 generated significant revenues from the sale of its products since its inception in June 1998. Before that, it had focused on developing new products, submitting and, in certain jurisdictions, obtaining marketing clearances and conducting limited commercial activities. While the Company has gained valuable experience and has significantly improved its operations, it is still impacted by its short history of sales, production, purchasing, service, commercialization and related operating activity relative to other mature and established companies.

The Company's products are new to the market, as compared to incumbent products or technologies. TSO_3 is therefore less able to predict the rate at which the products will be deployed into the end market, the degree to and rapidity by which the products are accepted and used by hospitals, the

robustness of its sterilizers and the associated warranty exposures. Any significant variation in any of these factors could have a material adverse impact on its operating results.

Additional investments in research and development are required to continue the development of new products, expand the Company's compatiblity testing and customer support, and to support the application for global regulatory clearances. The Company does not know if these efforts will provide investor returns and the Company cannot be certain if its products will obtain the necessary clearances to be marketed in all major jurisdictions, including the United States.

Some of the products currently being developed may not be commercially available for some years to come or may be discontinued altogether, for reasons within or not within the Company's control, and this may create operational and commercialization difficulties, delays or additional costs as well as potential difficulties in achieving manufacturing and purchasing efficiencies.

TSO_3 operates in a field characterized by technological change and product innovation. Its success depends on its ability to design, manufacture and distribute new products that are sufficiently valuable enough to end consumers to overcome a traditionally concervative, risk-averse and cost-concious market. Price is a key consideration in the client purchasing decisions. The Company's business performance could be materially affected if TSO_3's competitors become more effective and sell products at lower prices.

Limited History of Direct Sales and Dependence on Commercialization Partners

In 2017 and 2016 the Company depended on Getinge as its principal source of revenues.

Worldwide distribution of the Company's products critically depends on its channel partners, and the conditions of distribution agreements with such channel partners. TSO_3 announced in November 2015 the conclusion of a worldwide exclusive distribution agreement with Getinge for the STERIZONE® VP4 Sterilizer and as such, the Company is highly dependent on Getinge's commitment and success at marketing and distributing the STERIZONE® VP4 Sterilizer. On January 25, 2018, the Company entered into the Sales and Repurchase Agreement with Getinge in a joint effort to increase sales to end users and optimize the customer experience. The Sales and Repurchase Agreement allows the Company to sell its STERIZONE® VP4 Sterilizers and associated products and services directly into the United States and Canada. Getinge will continue to sell STERIZONE® VP4 Sterilizers in North America and the rest of the world and the parties have agreed to a customer selection mechanism to prevent the likelihood of channel conflict.

The Company's principal sources of revenue in the future will be from sales of sterilizers and consumables supplies (both direct to end customers and to Getinge), services, parts, and accessories. The Company has limited sales and marketing experience and there is no assurance that the Company can keep its current customers or gain new ones. The Company will have to expend material funds to promote and commercialize its products. The Company's success in this regard will depend on its ability to develop and implement an effective sales and marketing strategy. Failure to achieve the marketing objectives could have a material adverse effect on the Company and on its results of operations.

The Company has not yet received a purchase order for deliveries of STERIZONE® VP4 Sterilizers to Getinge in the early part of 2018. There is no guarantee that a purchase order will be received or, if received, will be on terms or of a scale similar to those received from Getinge in the past. Additionally, the Sales and Repurchase Agreement stipulates that it and the Getinge Agreement automatically terminate on August 1, 2018, unless otherwise extended to by mutual agreement of the parties. While good faith negotiations have begun by both parties to either replace or amend the existing agreements, with the stated mutual goal to work toward a new and improved business arrangement, there is no guarantee that such a replacement or amendment will be achieved under favourable terms to the Company or at all. Commercial terms of a future agreement or amendment, if any, may be materially different and adverse to existing agreement terms, which could have a material adverse effect on the Company and on its results of operations.

To the extent that the Company relies on third parties, such as Getinge, to market and distribute its products, the commercial success of such products and related consumables may be beyond the Company's control. There is no assurance that any agreement with third parties will be beneficial to the Company. Additionally,TSO_3 may conclude that sales incentives or discounts may be in the Company's best interests, which could materially impact its operating results. The inability of TSO_3, Getinge or any other of TSO_3's commercialization partners to successfully commercialize and distribute its products could have a material adverse effect on the Company's business, financial condition or results of operations. In addition, there is no assurance that the Company will be able to establish additional distribution agreements for its future products on favourable terms, if at all, or that such commercialization arrangements will be successful.

Regulatory Approvals

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

The Company has obtained clearance in Canada in December 2009 and in the European Community in March 2010 for its STERIZONE® 125L+ Sterilizer. While these are important markets and these clearances can be used in other countries, clearance in the US is the most important clearance to obtain and maintain due to the size of that market and its importance in terms of practice. The Company obtained clearance in the US for the STERIZONE® VP4 Sterilizer in December 2014. In October 2015, the TSO_3 received clearance from Health Canada (Canadian equivalent of the United States FDA) to sell the STERIZONE® VP4 Sterilizer with extended claims associated with multi-channel flexible endoscopes in the Canadian market and on July 4, 2016, TSO_3 announced that the FDA had also cleared TSO_3's expanded indications for use (IFU's) of its STERIZONE® VP4 Sterilizer relating to certain multi-channel flexible endoscopes of up to 3.5 meters in length and four or fewer channels. Maintenance of these clearances is critical for the Company, but as laws and regulation change, such maintenance may depend on parameters outside the Company's control.

The Company's business and financial condition could be adversely affected in the event that (1) a regulatory authority revokes any regulatory clearances granted in respect of the Company's products; (2) the Company fails to obtain regulatory clearance for modifications to existing products, for new products, or for the marketing of new uses for existing products of the Company; (3) regulatory authorities revise existing policies or regulations, or adopt additional regulations and the Company is unable to comply with such policies and regulations; or (4) the Company's products are subject to a recall. Any revocation of regulatory clearance, recall or other change required could have a material adverse impact on its operating results, and could impact its reputation amoung users and healthcare professionals who are promoting the Company's product.

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

The Company and its contract manufacturers and suppliers are also subject to numerous provincial and local laws relating to such matters as safe working conditions, manufacturing practices, environmental protection, fire hazard control and disposal of hazardous or potentially hazardous substances. The Company and its contract manufacturers and suppliers may be required to incur significant costs to comply with such laws and regulations in the future, and such laws and regulations

may have an adverse effect on the Company's business. Failure of the Company or its contract manufacturers and suppliers to comply with current or changes in existing regulatory requirements could materially harm the Company's business. Furthermore, there can be no assurance that the Company's contract manufacturers and suppliers will continue to comply with regulatory requirements. In such circumstances, the Company's business or financial condition may be adversely affected.

Management of Growth

In 2017, the Company have continued to ramped the sales and production volumes to levels it had not experienced in TSO_3's history. The Company underwent and will continue to be subject to many challenges associated with such change, such as the expansion of its production capacity, facilities, quality control systems, dealing with the complexity of growing multinational sales, regulations and operations, hiring new executive team members and attempting to accelerate their integration, sourcing goods and components from existing and new suppliers, hiring professional and subcontractor support, sourcing laboratory materials and equipment, sourcing subassemblies, accessories and consumables associated with the products, dealing with the limited ability of TSO_3's limited number of suppliers, and other third parties on which the Company is dependent to scale with the Company and provide the goods and services the Company needs, import and export regulations and taxes, ability to recruit and retain appropriate personnel, dealing with changes in regulatory environment, accessing appropriate amounts of capital, addressing increased transportation distances, destinations, delivery timelines and lead times, and addressing the expanding impact of hazardous materials considerations on the delivery of some of the products. Some of these challenges were new to the Company and the third parties on whom the Company relies. Additionally, the Company's lack of history in volume sale of its products makes it more difficult for the Company to predict installation costs and timelines, warranty exposures, customer adoption and usage, sales cycles, incentive requirements, and competitive response, among other considerations. While the Company is aware of and has addressed or is addressing many of these challenges, most of these challenges and risks remain and are outside of its control. There is no guarantee that the Company will successfully and smoothly address and forecast these and other challenges in the future. Failure to do so could result in a material adverse impact on the Company's ability to produce and sell its products and therefore could have a material adverse affect on its financial and operating results.

Healthcare Legislation

The Company operates in a highly-regulated industry and new laws, judicial decisions, or new interpretations of existing laws, or decisions, related to healthcare could negatively impact its business, operations and financial condition. Governments of local and foreign jurisdictions have in the past considered, are currently considering and may in the future consider, healthcare policies and proposals intended to curb rising healthcare costs. Future significant changes in the healthcare systems in Canada, Europe, the United States or elsewhere in the world, and current uncertainty about whether and how changes may be implemented, could have a negative impact on the demand for the products of the Company. It is not possible to predict whether other healthcare legislation or regulations affecting the Company's business may be proposed or enacted in the future; what effect any legislation or regulation would have on that business; or the effect ongoing uncertainty about these matters will have on the purchasing decisions by the Company's customers. Changes to regulations, standards and guidelines and the establishment of new regulatory authorities may affect the Company's existing or future regulatory clearances.

Customer Concentration

TSO_3 has a very concentrated customer base, with Getinge being, to date, its exclusive customer for the STERIZONE® Sterilization System. Until the Sales and Purchase Agreement was signed on January 25, 2018, TSO_3 sold all its sterilizers and proprietary consumables to Getinge, who then commercialized them to end customers. TSO_3 currently expects customer concentration to remain high, with Getinge being the Company's primary customer, while the Company beings to sell to end customers other than Getinge. It is possible that Getinge may remain TSO_3's largest customer in the future, but the Company has not received a purchase order for additional sterilizer shipments, and

Getinge must provide a purchase order to be obligated to buy units. There is no guarantee that Getinge will purchase additional STERIZONE® VP4 Sterilizers or other products. The lack of a purchase order, termination of the Getinge Agreement, a decline in sales volumes or prices of products sold to Getinge, or a default by either party for any reason could have a material adverse effect on the business, financial condition or results of operations of the Company.

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

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

Compatibility with Medical Instruments

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

Intellectual Property

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

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

In order to protect or enforce the intellectual property rights owned, used or commercialized by the Company, the Company may have to initiate legal proceedings against third parties. The Company may also have to defend claims brought against it or any purchaser or user of its products asserting that such product or process infringes intellectual property rights of third parties. Legal proceedings relating to intellectual property typically are expensive, take significant time and divert management's attention from other business matters. The cost of such litigation could adversely affect the business of the Company. Further, should the Company not prevail in an infringement lawsuit brought against it, the Company may have to pay substantial damages, and could be required to stop the infringing

activity or obtain a license to use the patented technology. Such royalty or licensing agreements, if required, may not be available on acceptable terms, if at all. In the event a claim is successful against the Company and the Company cannot obtain a license to the relevant technology on acceptable terms, license a substitute technology or redesign potential products to avoid infringement, the business, financial condition and operating results of the Company could be materially adversely affected. Loss of patent protection could lead to new competition for the Company's current and future products, which could materially and adversely affect the financial prospects for the Company's products.

There is no guarantee that other companies will not independently develop products similar to those of the Company, that they will not imitate the Company's products, or that the Company's competitors will not develop products designed to circumvent the Company's exclusive proprietary rights. The Company may also need to obtain rights for other technologies belonging to third parties, but there is no guarantee that such technologies will be offered to the Company on acceptable terms. If the Company does not obtain such licenses, the commercialization of one or more of its products could be delayed. In addition, the Company could incur considerable costs to prosecute or defend proceedings in which the Company asserts its proprietary rights against third parties.

Technologies

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

Dependency on Key Personnel

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

Expansion Risk

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

Competition Risks

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

Product Liability Issues

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

Need for Additional Capital and Liquidity

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

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

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

Challenging Global Political and Economic Conditions

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

All of these factors affect the business and economic conditions in a given geographic region and, consequently, affect the demand for the products developed or being developed by the Company. Currency rate movements and trade relationships in the United States and other countries where the Company seeks to market or distribute its products may significantly impact the Company's business prospects and future earnings. The monetary policies of the Bank of Canada, the US Federal Reserve

and the European monetary authorities as well as other interventionist measures in capital markets by public organizations are impacting economic conditions and therefore have consequences on the Company's business prospects.

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

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

International Activities

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

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

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

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

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

Foreign Currency Exchange Rates

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

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

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

Suppliers

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

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

Hazards and Risks

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

Financial Instruments

The Company's risk exposure includes the risk incurred in connection with its investments in financial instruments, namely cash, cash equivalents and short-term investments. In order to manage the risk entailed by these financial instruments, controls have been implemented and, in particular, an Investment Policy was adopted and implemented. The Company considers that the return on short-

term investments is secondary to risk minimization and primarily aims to optimize cash flows from a maturity perspective. With respect to investments, the main risk exposures are as follows:

Market Risk

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

Interest Rate Risk

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

As December 31, 2017, if interest rates on that date had been 0.5% lower, and all other variables held constant, the consolidated net loss and comprehensive loss for the period would have been $0.03 million lower ($0.05 million for the year ended December 31, 2016), arising mainly as a result of an increase in the fair value of fixed rate financial assets classified at fair value through profit or loss. If the interest rates on that date had been 0.5% higher, all other variables being held constant, the consolidated net loss and comprehensive loss for the period would have been $0.03 million higher ($0.05 million for the year ended December 31, 2016), arising mainly as a result of a decrease in the fair value of fixed rate financial assets classified at fair value through profit or loss. The net loss and comprehensive loss therefore have substantially the same sensitivity to interest rate increases and interest rate decreases.

Credit Risk

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

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

This program was used during the fiscal year of 2017.

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

As at December 31, 2017 and 2016, the Company's short-term investments were rated by at least two recognized agencies and were within the credit ratings required by the Company's Investment Policy.

Concentration Risk

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

As at December 31, 2017 and 2016, there was no single investment that exceeded the limit required under the Company's Investment Policy.

Liquidity Risk

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

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

Currency Risk

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

As at December 31, 2017, if the US dollar had weakened 10 percent against the Canadian dollar with all other variables held constant, the net loss and comprehensive loss for the period ended December 31, 2017 would have been $0.4 million lower ($0.05 million for the year ended December 31, 2016). Conversely, if the US dollar had strengthened 10 percent against the Canadian dollar with all other variables held constant, the net loss and comprehensive loss for the period ended December 31, 2017 would have been $0.4 million higher ($0.05 million for the year ended December 31, 2016).

Fair Value

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

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

Loss of Entire Investment

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

Volatility of Share Price

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

Dividends

Until now, the Company has never paid any cash dividend on its common shares and it currently intends to retain its future earnings, if any, to fund the development growth of its business. In addition, the terms of any future debt or credit facility may prevent the Company from paying any dividend unless certain consents are obtained and/or certain conditions are met.

Other Risk Factors

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

Disclosure and Internal Controls

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

The CEO and the CFO have designed DC&P, or caused them to be designed under their supervision, to provide reasonable assurance that (1) material information relating to the Company has been made known to them and that (2) information required to be disclosed in the Company's filings is recorded, processed, summarized and reported within the prescribed time periods under securities legislation as of December 31, 2017.

Also, the CEO and the CFO have designed ICFR, or have caused it to be designed under their supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Interim Financial Statements for financial reporting purposes in accordance with IFRS as of December 31, 2017.

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

An evaluation of the effectiveness of DC&P and ICFR is carried out annually under the supervision of the CEO and the CFO and the results of the last such evaluation were communicated to the Board of Directors as part of the review made in connection with the end of fiscal year 2017. This evaluation consisted of a review of documentation and other procedures that management considered appropriate in the circumstances.

Based on this evaluation and using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) on Internal Control – Integrated Framework (2013), the two certifying officers concluded that DC&P and ICFR were effective as of December 31, 2017.

Changes in internal controls over financial reporting

No changes were made to the Company's internal controls over financial reporting that occurred during the quarter and the fiscal year ended December 31, 2017 that have materially affected, or are reasonably likely to materially affect, the internal controls over financial reporting.

Management Report

Responsibility of the Financial Statements

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

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

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

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

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

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

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

The Management, Discussion and Analysis has been prepared as at March 20, 2018. Additional information on the Company is available through regular filing of press releases, annual reports, quarterly financial statements and the Annual Information Form on the SEDAR website www.sedar.com.

On behalf of Management,

Richard M. Rumble
President and Chief Executive Officer

Glen Kayll
Chief Financial Officer

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and 2016

Independent Auditor's Report

Deloitte LLP
La Tour Deloitte
1190 Avenue des
Canadiens-de-Montréal
Suite 500
Montréal QC H3B 0M7
Canada

Tel: 514-393-7115
Fax: 514-390-4116
www.deloitte.ca

To the shareholders of TSO_3 Inc.,

We have audited the accompanying consolidated financial statements of TSO_3 Inc. (the Company), which comprise the consolidated statements of financial position as at December 31, 2017 and 2016 and the consolidated statements of loss and comprehensive loss, the consolidated statements of changes in equity and the consolidated statements of cash flows for the years then ended and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of TSO3 Inc. as at December 31, 2017 and 2016, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to the fact that the accompanying consolidated financial statements have been prepared under a going concern assumption. As discussed in Note 2 to the consolidated financial statements, the Company's inability to successfully generate revenues from the sales of its products through its own distribution network and/or through a distribution agreement with a third party may cast material doubt about its ability to continue as a going concern.

/s/Deloitte LLP 1

March 20, 2018

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[1] CPA auditor, CA, public accountancy permit No. A124341

Consolidated Statements of Loss and Comprehensive Loss

Years ended December 31, 2017 and 2016 (in thousands of US dollars, except per share amounts)

	Notes	2017 $	2016 $
Revenues		**19,726**	13,301
Cost of sales		**12,068**	9,188
Gross profit		**7,658**	4,113
Expenses			
Research and development		**6,222**	3,512
Selling, general and administrative		**8,728**	6,529
Financial expenses (income)	**4**	**132**	(1,658)
Total Expenses		**15,082**	8,383
Net loss before income taxes		**(7,424)**	(4,270)
Income taxes	**18**	**30**	109
Net loss and total comprehensive loss		**(7,454)**	(4,379)
Weighted average number of outstanding shares (in thousands)		**92,508**	90,810
Basic and diluted net loss per share	**21**	**(0.08)**	(0.05)
Basic and diluted net comprehensive loss per share	**21**	**(0.08)**	(0.05)

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

Consolidated Statements of Changes in Equity

(In thousands of US dollars)

	Notes	Share Capital $	Reserve-Share-Based Compen-sation $	Reserve – Warrants $	Deficit $	Other comprehen-sive income $	Total $
Balance at January 1, 2016		98,817	3,990	493	(91,455)	(1,712)	10,133
Options exercised	12	1,103	(384)	-	-	-	719
Warrants exercised	12,14	10,486	-	(391)	-	-	10,095
Warrants expired	14	-	-	(102)	102	-	-
Share-based compensation	13	-	1,103	-	-	-	1,103
Net loss for the period		-	-	-	(4,379)	-	(4,379)
Balance at December 31, 2016		110,406	4,709	-	(95,732)	(1,712)	17,671
Balance at January 1, 2017		110,406	4,709	-	(95,732)	(1,712)	17,671
Options exercised	12	809	(269)	-	-	-	540
Share-based compensation	13	-	2,134	-	-	-	2,134
Net loss for the period		-	-	-	(7,454)	-	(7,454)
Balance at December 31, 2017		111,215	6,574	-	(103,186)	(1,712)	12,891

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

Consolidated Statements of Financial Position

As of December 31, 2017, and 2016 (In thousands of US dollars)

	Notes	2017 $	2016 $
Current Assets			
Cash and Cash Equivalents	6	**8,044**	2,698
Short-term Investments	6	**6,764**	15,064
Accounts Receivable	7	**651**	2,318
Inventories	8	**2,040**	1,703
Prepaid Expenses		**150**	102
		17,649	21,885
Non-current Assets			
Long-term Investments	6	**-**	1,498
Property, Plant and Equipment	9	**3,184**	2,357
Intangible Assets	10	**1,886**	1,836
		5,070	5,691
		22,719	27,576
Current Liabilities			
Accounts Payable and Accrued Liabilities	6	**2,430**	2,272
Warranty Provision		**1,263**	575
Current Tax Liabilities	18	**68**	-
Deferred Revenues	11	**6**	1,004
		3,767	3,851
Non-current Liabilities			
Defered Tax Liabilities	18	**17**	109
Deferred Revenues	11	**6,044**	5,945
		9,828	9,905
Equity			
Share Capital	12	**111,215**	110,406
Reserve – Share-based Compensation	13	**6,574**	4,709
Deficit		**(103,186)**	(95,732)
Accumulated Other Comprehensive Loss		**(1,712)**	(1,712)
		12,891	17,671
		22,719	27,576

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

Approved by the Board

Director

Director

Consolidated Statements of Cash Flows

As of December 31, 2017 and 2016 (In thousands of US dollars)

	Notes	2017 $	2016 $
Cash flows from operating activities			
Net loss		**(7,454)**	(4,379)
Adjustments for:			
Depreciation and amortization		**966**	448
Loss on write-down of property, plant and equipment		**46**	-
Income tax liabilities		**68**	-
Deferred income tax liabilities	18	**(92)**	109
Share-based compensation	13	**2,134**	1,103
Investment income	4	**(131)**	(180)
		(4,463)	(2,899)
Changes in non-cash operating working capital items	16	**1,148**	(2,597)
Interest received		**185**	106
Cash flows used in operating activities		**(3,130)**	(5,390)
Cash flows from investing activities			
Acquisition of investments		**(6,349)**	(26,195)
Disposal of investments		**16,091**	12,164
Acquisition of property, plant and equipment	9	**(1,569)**	(1,085)
Acquisition of intangible assets	10	**(239)**	(314)
Proceed from disposal of property, plant and equipment		**2**	-
Cash flows used in investing activities		**7,936**	(15,430)
Cash flows from financing activities			
Options exercised	12	**540**	719
Warrants exercised	12, 14	**-**	10,145
Cash flows generated by financing activities		**540**	10,864
Increase (decrease) in cash and cash equivalents		**5,346**	(9,956)
Cash and cash equivalents at the beginning		**2,698**	12,654
Cash and cash equivalents at the end		**8,044**	2,698

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

Notes to the Consolidated Financial Statements

Years ended December 31, 2017 and 2016 (In thousands of US dollars, unless otherwise indicated)

1. Description of Business

TSO_3 ("TSO_3" or the "Company") exists under the Business Corporations Act (Québec). The Company's activities encompass the sale, production, maintenance, research, development and licensing of sterilization processes, related consumable supplies and accessories for medical devices that are sensitive to heat and moisture. The Company designs products for sterile processing areas in medical facilities that offer an advantageous replacement solution to other low temperature sterilization and high-level disinfection processes currently used. TSO_3 also offers services related to the maintenance of sterilization equipment and compatibility testing of medical devices with such processes. The head office of the Company is located at 2505, avenue Dalton, Québec (Québec), Canada and its subsidiary office is located at 1636 American Way, Myrtle Beach, SC, United States.

2. Accounting Policies

Statement of Compliance

The consolidated financial statements (the "financial statements") have been prepared in accordance with International Financial Reporting Standards (IFRS), included in the CPA Canada Handbook.

Basis of Presentation and Going Concern

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. The change in functional currency was applied prospectively from January 1, 2016.

The Company started its commercial operations at the end of 2015, when it announced a worldwide exclusive distribution agreement (the"Getinge agreement") with Getinge for the STERIZONE® VP4 Sterilizer. The Company has been highly dependent on Getinge's commitment and success at marketing and distributing the STERIZONE® VP4 Sterilizer.

Getinge's sales to end users did not occur at the same pace as Getinge's purchases from TSO_3. The Company sold 110 and 170 STERIZONE® VP4 Sterilizers in 2016 and 2017 respectively. In November 2017, the Company indicated that over 50 STERIZONE® VP4 Sterilizers had been delivered to end users in Canada and in the United States.

On January 25, 2018, the Company entered into a co-commercialization agreement (the "Sales and Repurchase Agreement") with Getinge allowing the Company to sell its STERIZONE® VP4 Sterilizers and associated products and services directly into the United States and Canada. The Sales and Repurchase Agreement also include an obligation for the Company to repurchase not less than 100 STERIZONE® VP4 Sterilizers for $3.3 million (see also Note 23).

The parties have also agreed to begin immediate negotiations on additional modifications to the distribution relationship. The Sales and Repurchase Agreement and the Getinge Agreement will terminate on August 1, 2018 unless extended by mutual agreement. If agreement between the parties is not reached, TSO_3 has agreed, by July 1, 2019, to repurchase Getinge's remaining STERIZONE® VP4 Sterilizers at the same unit price in the Sales and Repurchase Agreement.

While good faith negotiations have begun by both parties to either replace or amend the existing agreements, with the stated mutual goal to work toward a new and improved business arrangement, there is no guarantee that such a replacement or amendment will be achieved under favourable terms to the Company or at all.

Notes to the Consolidated Financial Statements

Years ended December 31, 2017 and 2016 (In thousands of US dollars, unless otherwise indicated)

2. Accounting Policies (cont'd)

The performance requirements in the Getinge Agreement involve minimum annual unit purchase commitments from Getinge and fulfillment obligations by TSO_3. Getinge must provide a purchase order to be obligated to buy units under its minimum annual commitments, and Getinge has not yet provided such a purchase order for 2018. There is no guarantee that Getinge will purchase additional STERIZONE® VP4 Sterilizers or other products or services.

As of December 31, 2017, the Company had positive working capital of $13.8 million, an accumulated deficit of $103 million and a net loss of $7.4 million for the year ended December 31, 2017. The attainment of profitable operations is dependent upon future events, including generating revenues from the sale of its products that will support its cost structure through its own distribution network and/or through a successful distribution agreement and gaining market acceptance for its products. The uncertainties related to these various conditions may cast doubt on the Company's ability to continue as a going concern.

In the event that the Company would not achieve its expected sales, the Company may be required to reduce or delay operating expenses as deemed appropriate to in order to conserve cash or to raise additional capital or financing within the next year, in order to continue the production and commercialization of its products and to continue to fund operations at the current cash expenditure levels.

Our consolidated financial statements as of December 31, 2017 have been prepared under the assumption that we will continue as a going concern for the next twelve months. Our ability to continue as a going concern is dependent upon our ability to generate additional revenue from the sale of units by the Company, attain further operating efficiencies, obtain additional equity or debt financing or to reduce expenditures. Our consolidated financial statements as of December 31, 2017 did not include any adjustments that might result from the outcome of this uncertainty.

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.

Scope of Consolidation

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

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

Notes to the Consolidated Financial Statements

Years ended December 31, 2017 and 2016 (In thousands of US dollars, unless otherwise indicated)

2. Accounting Policies (cont'd)

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.

The Company signed an exclusive distribution agreement that includes the sale of sterilizers under a formula for minimum unit shipments as well as a license revenue (see Note 3). The Company determines the different deliverables related to the distribution agreement and estimates the revenues related to these elements.

In addition, the Company earns revenue from service contracts that is recognized using the straight-line method over the term of each contract.

License Revenue

The Company 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 based on the ratio of the products delivered to the estimated products to be delivered over the life of the contract. The estimated product to be delivered over the life of the contract is reviewed periodically (see Note 11).

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.

Derecognition

A financial asset is derecognized when the rights to receive cash flows from the asset have expired; the Company has transferred its rights to receive cash flows from the asset and either has transferred substantially all the risks and rewards of the asset or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

The Company is involved in an automated receivable factoring program with Getinge and a Getinge global banking partner. Under this program, TSO_3 may sell to the bank the outstanding receivables that Getinge posts to the program. The Company receives the money from the bank; these transactions are accounted for when the Company is considered to have surrendered control over the transferred of the asset (accounts receivable).

Notes to the Consolidated Financial Statements

Years ended December 31, 2017 and 2016 (In thousands of US dollars, unless otherwise indicated)

2. Accounting Policies (cont'd)

Share-Based Compensation

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

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.

Income Taxes

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

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

Deferred tax

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

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

Notes to the Consolidated Financial Statements

Years ended December 31, 2017 and 2016 (In thousands of US dollars, unless otherwise indicated)

2. Accounting Policies (cont'd)

Deferred tax (cont'd)

Deferred tax assets are recognized to the extent it is probable that taxable profits will be available against which the deductible temporary differences can be utilized. The carrying amount of deferred tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Government Assistance and Research and Development Tax Credits

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

Inventories

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

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

Property, Plant and Equipment

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

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

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

Notes to the Consolidated Financial Statements

Years ended December 31, 2017 and 2016 (In thousands of US dollars, unless otherwise indicated)

2. Accounting Policies (cont'd)

Intangible Assets

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

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

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

Impairment of Property, Plant and Equipment and Intangible Assets

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

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

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

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

During the year ended December 31, 2017, the Company performed an impairment test and the results allowed the Company to conclude that no impairment loss needs to be recorded.

Notes to the Consolidated Financial Statements

Years ended December 31, 2017 and 2016 (In thousands of US dollars, unless otherwise indicated)

2. Accounting Policies (cont'd)

Warranty Provision

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

Warrants

The Company uses the fair value method to measure the value of warrants at the award date. Fair value is determined using the Black-Scholes option pricing model and is recorded as part of the Reserve – Warrants. When warrants are exercised, the corresponding amount in the Reserve – Warrants and the proceeds received by the Company are credited to Share Capital.

Financial Instruments

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially recognized at fair value and subsequent measurement depends on how they are classified, which is described below. Their classification depends on the purpose for which the financial instruments were acquired or issued, their characteristics, and the designation made by the Company. Settlement date accounting is used.

Classification, Recognition and Measurement of Financial Instruments

Financial instruments are classified in categories and their measurement in subsequent periods depends on their classification. The Company has classified its financial instruments as follows:

Category	Classification
Cash	Loans and Receivables
Cash Equivalents	Fair value through profit or loss
Investments	Fair value through profit or loss
Accounts Receivable	Loans and Receivables
Accounts Payable and Accrued Liabilities	Other Liabilities

Cash and Cash Equivalents

Cash and cash equivalents include cash and investments with maturities of three months or less from the date of acquisition. These investments are highly liquid and are held for the purpose of meeting short and long term cash commitments.

Investments

Investments are instruments presented at fair value through profit or loss because they will be used for short and long-term cash commitments. These investments are recorded at fair value. Increases and decreases in fair value are recognized as investment income.

Notes to the Consolidated Financial Statements

Years ended December 31, 2017 and 2016 (In thousands of US dollars, unless otherwise indicated)

2. Accounting Policies (cont'd)

Accounts Receivable

Accounts receivable are accounted for at amortized cost using the effective interest method.

Accounts payable and Accrued Liabilities

Accounts payable and accrued liabilities are accounted for at amortized cost using the effective interest method.

Transaction Costs

Transaction costs related to financial assets presented at fair value are expensed as incurred. Transaction costs related to other liabilities and to loans and receivables are added to the carrying value of the asset or are netted against the carrying value of the liability and are then recognized over the expected life of the instrument using the effective interest method.

Fair Value

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

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

Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at the end of each reporting period. For the Company these elements are represented by cash and cash equivalents and receivables. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the investments have been affected. As at December 31, 2017 and December 31, 2016, such event has not occurred and consequently no impairment loss has been taken.

Critical Accounting Judgments and Key Sources of Estimates Uncertainty

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

Notes to the Consolidated Financial Statements

Years ended December 31, 2017 and 2016 (In thousands of US dollars, unless otherwise indicated)

2. Accounting Policies (cont'd)

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

1. *Recoverability of Long-Lived Assets*

   On an annual basis, the Company evaluates if there are indicators of impairment. When such indicators are identified, the Company is required to perform an impairment test in order to measure the recoverable amount of its long-lived assets. The main judgments made by management for the impairment test performed as at December 31, 2017 were the following:

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

2. *Inventory Valuation*

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

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

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

4. *Share-Based Compensation*

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

5. *Functional Currency*

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

Notes to the Consolidated Financial Statements

Years ended December 31, 2017 and 2016 (In thousands of US dollars, unless otherwise indicated)

2. Accounting Policies (cont'd)

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

6. 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.

7. *Warranty*

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

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

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. To date, the Company does not expect the new standard to result in material changes aside from disclosure requirements.

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 does not expect the new standard to result in material changes aside from disclosure requirements.

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 does not expect the new standard to result in material changes.

Notes to the Consolidated Financial Statements

Years ended December 31, 2017 and 2016 (In thousands of US dollars, unless otherwise indicated)

3. Future Accounting Changes (cont'd)

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.

On June 30, 2016, the IASB issued narrow-scope amendments to IFRS 2 Share-based Payment clarifying how to account for certain types of share-based payment transactions. The amendments provide requirements on the accounting for:

- The effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments;
- Share-based payment transactions with a net settlement feature for withholding tax obligations;
- A modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

The amendments are effective for annual periods beginning on or after January 1, 2018. The Company does not expect the new standard to result in material changes.

4. Financial expenses (income)

	2017 $	2016 $
Financial Income		
Investment Income	**(131)**	(180)
Foreign Exchange Gain	**-**	(1,529)
	(131)	(1,709)
Financial Expenses		
Bank Charges	**57**	51
Factoring Cost	**99**	-
Foreign Exchange Loss	**107**	-
	263	51
Total Financial Expenses (Income)	**132**	(1,658)

Notes to the Consolidated Financial Statements

Years ended December 31, 2017 and 2016 (In thousands of US dollars, unless otherwise indicated)

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

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

	2017 $	2016 $
Salary and Other Benefits	**7,291**	5,697
Share-based compensation expense	**2,134**	1,103
Depreciation of Property, Plant and Equipment	**777**	279
Amortization of Intangible Assets	**189**	169
Research and Development Tax Credits	**(184)**	(155)

Severance Expenses

During the year 2017, the Company recorded severance expenses to some of its employees for a total amount of $0.2 million ($0.1 million for the year 2016).

6. Financial Instruments

Cash and Cash Equivalents

	2017 $	2016 $
Cash	8,044	2,698

Investments

	2017 $	2016 $
Short-term Investments		
Bank Guaranteed Investment Certificates	**-**	2,015
Bonds	**6,764**	13,049
	6,764	15,064
Long-term Investments		
Bonds	**-**	1,498
	6,764	16,562

Accounts Receivable

	2017 $	2016 $
Accounts Receivable	**651**	2,318

Notes to the Consolidated Financial Statements

Years ended December 31, 2017 and 2016 (In thousands of US dollars, unless otherwise indicated)

6. Financial Instruments (cont'd)

Accounts Payable and Accrued Liabilities

	2017 **$**	2016 $
Accounts Payable and Accrued Liabilities	**2,430**	2,272

Investments were rated A- or better and had an average yield of 1.48% as at December 31, 2017 as compared to 1.28% as at December 31, 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.

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

Market Risk

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

Interest Rate Risk

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

As December 31, 2017, if interest rates on that date had been 0.5% lower, and all other variables held constant, the consolidated net loss and comprehensive loss for the period would have been $0.03 million lower ($0.05 million for the year ended December 31, 2016), arising mainly as a result of an increase in the fair value of fixed rate financial assets classified at fair value through profit or loss. If the interest rates on that date had been 0.5% higher, all other variables being held constant, the consolidated net loss and comprehensive loss for the period would have been $0.03 million higher ($0.05 million for the year ended December 31, 2016), arising mainly as a result of a decrease in the fair value of fixed rate financial assets classified at fair value through profit or loss. The net loss and comprehensive loss therefore have substantially the same sensitivity to interest rate increases and interest rate decreases.

Credit Risk

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

Notes to the Consolidated Financial Statements

Years ended December 31, 2017 and 2016 (In thousands of US dollars, unless otherwise indicated)

6. Financial Instruments (Cont'd)

Credit Risk (cont'd)

During 2016 the Company entered into a receivables factoring program with Getinge and one of its partner banking institutions. This program allows the Company to factor all outstanding receivables that Getinge posts to the program at relatively low cost, and, when doing so, collect cash earlier and reduce the Company's credit exposure to Getinge and the credit risk related to Getinge receivables. This program was used during the year 2017.

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

As at December 31, 2017 and 2016, the Company's investments were rated by at least two recognized agencies and were within the credit ratings required by the Company's investment policy.

Concentration Risk

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

As at December 31, 2017 and 2016, there was no single investment that exceeded the limit required under the Company's Investment Policy.

Liquidity Risk

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

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

Currency Risk

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

As at December 31, 2017, if the US dollar had weakened 10 percent against the Canadian dollar with all other variables held constant, the net loss and comprehensive loss for the year ended December 31, 2017 would have been $0.4 million lower ($0.05 million for the year ended December 31, 2016). Conversely, if the US dollar had strengthened 10 percent against the Canadian dollar with all other variables held constant, the net loss and comprehensive loss for the year ended December 31, 2017 would have been $0.4 million higher ($0.05 million for the year ended December 31, 2016).

Notes to the Consolidated Financial Statements

Years ended December 31, 2017 and 2016 (In thousands of US dollars, unless otherwise indicated)

7. Accounts Receivable

	2017 **$**	2016 $
Receivables from Clients	**217**	2,025
Government Credits Receivable	**434**	293
	651	2,318

There were no bad debt allowances as at December 31, 2017 nor as at December 31, 2016.

8. Inventories

	2017 **$**	2016 $
Raw Materials	**1,137**	1,023
Work in Progress	**242**	137
Finished Goods	**661**	543
	2,040	1,703

Cost of sales expenses included a write-off of raw materials of $0.1 million for the year ended December 31, 2017 ($0.4 million for the year ended December 31, 2016).

9. Property, Plant and Equipment

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

Notes to the Consolidated Financial Statements

Years ended December 31, 2017 and 2016 (In thousands of US dollars, unless otherwise indicated)

9. Property Plant and Equipment (Cont'd)

	Lift Truck, Equipment and Tools $	Sterilizers used Internally And Externally $	Marketing and Admin Furniture and Demons-Tration Equipment $	Medical Devices $	Computer Equipment $	Leasehold Improve-Ments $	Total $
Cost							
Balance at January 1, 2016	916	512	204	420	140	167	2,359
Additions	488	1,190	31	252	68	241	2,270
Balance at December 31, 2016	1,404	1,702	235	672	208	408	4,629
Accumulated Depreciation							
Balance at January 1, 2016	817	419	129	376	99	153	1,993
Depreciation	53	109	19	70	19	9	279
Balance at December 31, 2016	870	528	148	446	118	162	2,272
Net Carrying Amount at December 31, 2016	534	1,174	87	226	90	246	2,357

10. Intangible Assets

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

	Technology $	Patents Licenses Trademarks $	Software Web Site $	Total $
Cost				
Balance at January 1, 2016	2,156	866	143	3,165
Additions	-	295	19	314
Balance at December 31, 2016	2,156	1,161	162	3,479
Accumulated Amortization				
Balance at January 1, 2016	1,186	159	129	1,474
Amortization	106	55	8	169
Balance at December 31, 2016	1,292	214	137	1,643
Net Carrying Amount at December 31, 2016	864	947	25	1,836

Notes to the Consolidated Financial Statements

Years ended December 31, 2017 and 2016 (In thousands of US dollars, unless otherwise indicated)

11. 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. Included in this agreement was an upfront license fee payment of $7.5 million from Getinge to the Company. 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 (see Note 23).

The Company recorded the $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 in US dollars to Getinge.

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

12. Share Capital

Authorized:

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

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

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

Issued:

	2017		2016
Issued and Paid	**Number of Common Shares**	**$**	Number of Common Shares	$
Balance at Beginning	**91,977,214**	**110,406**	83,324,789	98,817
Options Exercised	**877,090**	**809**	969,825	1,103
Warrants Exercised	**-**	**-**	7,682,600	10,486
Balance at the End	**92,854,304**	**111,215**	91,977,214	110,406

Each warrant was entitled to acquire one common share at a price of $1.43 (CAD$1.88) 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 $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 14) and 7,682,600 common shares were issued in 2016.

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 $0.99 (CAD$1.25) until March 5, 2016. These compensation warrants had a fair value of $0.1 million (CAD$0.1 million).

Notes to the Consolidated Financial Statements

Years ended December 31, 2017 and 2016 (In thousands of US dollars, unless otherwise indicated)

12. Share Capital (cont'd)

During the year 2017, pursuant to the Company's Stock Option Plan, 877,090 stock options were exercised for an aggregate cash consideration of $0.5 million. During the year 2016, 969,825 options were exercised for an aggregate cash consideration of $0.7 million.

During the year 2016, in connection with the exercise of warrants, the Company issued 7,682,600 common shares for a cash consideration of $10.1 million.

Employee Stock Purchase Plan

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

Deferred Share Unit Plan

DSUs are awarded in connection with the 2016 Stock Incentive Compensation Plan. Under this plan, each eligible person receives a portion of his or her compensation in the form of DSUs. 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 the Company for the last trading day. The DSUs are settled in cash or in common share at the discretion of the Company when a person ceases to be eligible under the plan. For the purpose of repurchasing DSUs, 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 December 31, 2017 the number of DSUs awarded amounted to 0.1 million (0.1 million as at December 31, 2016). During the year ended December 31, 2017, TSO_3 recorded a compensation expense of $0.2 million ($0.9 million as at December 31, 2016) for its deferred share unit plan.

13. Reserve – Share-Based Compensation

The Company's Board of Directors adopted the 2016 Stock Incentive Compensation Plan which includes the award of stock options. The plan was approved by the shareholders. The total number of common shares that can be issued under this plan for all forms of award from the Company's share capital was 9.3 million as at December 31, 2017, (8.0 million as at December 31, 2016). The options awarded pursuant to this plan generally vest over a three-year period and may be exercised within a maximum of 10 years from the date of award.

During the year ended December 31, 2017, the Company awarded 2.9 million stock options, (3.4 million for the same period in 2016) at a weighted average exercise price of $2.20 or CAD$2.76 ($1.88 or CAD$2.54 for the same period in 2016). The weighted average fair value of these stock options was $1.38 or CAD$1.74 for the year 2017 ($1.17 or CAD$1.57 for the year in 2016).

The share-based compensation expense pertaining to the award of options is amortized using the graded vesting method and represents a share-based compensation expense of $2.1 million for the year ended December 31, 2017 ($1.1 million for the same period in 2016) presented in the Consolidated Statements of Loss and Comprehensive Loss in the functions based on the option holders.

Notes to the Consolidated Financial Statements

Years ended December 31, 2017 and 2016 (In thousands of US dollars, unless otherwise indicated)

13. 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$	**2017 $**	2016 $
Weighted Average Share Price	**$2.20**	$1.88
Exercise Price	**$2.20**	$1.88
Risk Free Interest Rate	**1.76%**	1.15%
Estimated Share Price Volatility	**61%**	59%
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 2017 and 2016 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.

US$	**Number**	**2017 Weighted Average Exercise Price $**	Number	2016 Weighted Average Exercise Price $
Outstanding at beginning	**7,024,231**	**1.39**	4,993,568	0.89
Granted	**2,977,080**	**2.13**	3,516,137	1.88
Exercised	**(877,090)**	**0.65**	(969,825)	0.74
Expired	**(19,600)**	**2.03**	(73,203)	0.81
Forfeited	**(1,194,668)**	**2.19**	(442,446)	1.09
Outstanding at end	**7,909,953**	**1.71**	7,024,231	1.39
Exercisable at end	**3,177,566**	**1.33**	2,637,905	0.77

The following table summarizes certain information regarding the stock options of the Company as at December 31, 2017:

	Outstanding Options		**Exercisable Options**	
Exercise Price in US$	**Number**	**Average Remaining Contractual Life (year)**	**Number**	**Average Remaining Contractual Life (year)**
$0.00 (DSU's)	**138,134**	**Undetermined**	**102,802**	**Undetermined**
$0.01 to $0.80	**875,667**	**2.76**	**875,667**	**2.76**
$0.81 to $1.69	**2,574,233**	**6.45**	**1,537,894**	**5.39**
$1.70 to $2.89	**4,321,919**	**9.38**	**661,203**	**8.45**
	7,909,953	**8.81**	**3,177,566**	**7.40**

Notes to the Consolidated Financial Statements

Years ended December 31, 2017 and 2016 (In thousands of US dollars, unless otherwise indicated)

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

The following table summarizes certain information regarding the stock options of the Company as at December 31, 2016:

	Outstanding Options		Exercisable Options	
Exercise Price in US$	**Number**	**Average Remaining Contractual Life (year)**	**Number**	**Average Remaining Contractual Life (year)**
$0.00 (DSU's)	61,137	Undetermined	20,379	Undetermined
$0.01 to $0.85	1,460,966	3.59	1,377,546	3.16
$0.86 to $1.69	2,792,834	7.93	996,823	6.25
$1.70 to $2.76	2,709,294	9.27	243,157	3.56
	7,024,231	7.51	2,637,905	4.37

14. Reserve – Warrants

	2017		2016	
$US	**Number**	**Weighted Average Exercise Price $**	Number	Weighted Average Exercise Price $
Outstanding at Beginning	**-**	**-**	8,977,200	1.33
Exercised	**-**	**-**	7,682,600	1.31
Expired	**-**	**-**	1,294,600	1.36
Outstanding at end	**-**	**-**	-	-
Exercisable at end	**-**	**-**	-	-

On January 5, 2016, the Company exercised an option to accelerate the maturity of the warrants to February 4, 2016. 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 $9.7 million (CAD$13.5 million).

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 $0.99 (CAD$1.25) until March 5, 2016. From January 1, 2016 to the expiration date of March 5, 2016, all compensation warrants had been exercised for total cash proceeds of $0.4 million (CAD$0.6 million).

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 $0.1 million was transferred to the deficit.

Notes to the Consolidated Financial Statements

Years ended December 31, 2017 and 2016 (In thousands of US dollars, unless otherwise indicated)

15. Capital Management

The Company needs capital primarily to finance its sale and marketing activities, its production, its research and development, its supply chain, administrative and communication expenses, its working capital and its capital expenditures. The Company's capital is comprised of share capital and reserve for share-based compensation. Depending on the quality of the credit structure of a prospective debt transaction and prevailing market conditions, the Company could finance a portion of its cash needs through 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.

16. Additional Information Relating to Cash Flows

	2017 **$**	2016 $
Changes in Non-Cash Operating Working Capital Items		
Decrease (Increase) in Assets		
Accounts Receivable	**1,667**	(1,881)
Inventories	**(337)**	(401)
Prepaid Expenses	**(48)**	(23)
Increase (Decrease) in Liabilities		
Accounts Payable, Accrued Liabilities	**158**	984
Warranty Provision	**688**	546
Current Deferred Revenues	**(998)**	202
Non-current Deferred revenues	**99**	(789)
	1,229	(1,362)
Warrants exercised receivable	**-**	(50)
Property, Plant & Equipment Transferred to Inventories	**31**	
Inventories transferred to Property, Plant and Equipment	**(112)**	(1,185)
	1,148	(2,597)
Research and Development Tax Credits		
Received	**156**	155

17. Related Party Transactions

Compensation of Key Management Personnel

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

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

Notes to the Consolidated Financial Statements

Years ended December 31, 2017 and 2016 (In thousands of US dollars, unless otherwise indicated)

17. Related Party Transactions (cont'd)

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

	2017 **$**	2016 $
Short-term salaries and other benefits[(1)]	**2,430**	1,825
Share-Based Payments	**13**	13
Share-Based Awards[(2)]	**1,967**	852
	4,410	2,690

(1) As of December 31, 2017, the Company had a unsecured receivable outstanding of $0.2 million from an executive in relation to an ordinary course income tax refund related to a tax reconciliation prepared by the Company. The executive has assigned the rights to the refund to the Company and the Company is awaiting receipt from the government. The unsecured receivable bears no interest. No such receivables were outstanding at December 31, 2016.

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

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

18. Income Taxes

Income tax expense is comprised of the following:

	December 31, 2017 **$**	December 31, 2016 $
Current Tax Expense	**122**	-
Deferred Tax Expense	**(92)**	109
	30	109

Reconciliation of the effective income tax expense (recovery)

The statutory tax rate of the Company is 26.80% (26.90% for 2016). The Company's income tax expense (recovery) differs from the one calculated by applying Canadian statutory rates for the following reasons:

	December 31, 2017 **$**	December 31, 2016 $
Earnings (Loss) before Income Taxes	**(7,424)**	(4,270)
Income taxes at the standard rate of Canadian Corporate tax of 26.80% (26.90% for 2016)	**(1,990)**	(1,149)
Increase (Decrease) resulting from:		
Effect of tax rate for foreign subsidiary	1	43
Changes in tax laws and rates	**(10)**	275
Non-deductible items	**599**	180
Adjustments in respect of prior years	**(30)**	289
Tax losses and deductible temporary differences for which no deferred income tax assets is recognized	**1460**	462
	30	109

Notes to the Consolidated Financial Statements

Years ended December 31, 2017 and 2016 (In thousands of US dollars, unless otherwise indicated)

18. Income Taxes (cont'd)

Quebec income tax rate decreases gradually. Income tax rate has decreased from 11.90% in 2016 to 11.80% in 2017 and will be at 11.50% by 2020.

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

	December 31, 2017	December 31, 2016
	$	$
Accrued Liabilities	**305**	-
Property, Plant and Equipment	**(322)**	109
	(17)	109

As at December 31, 2017, the accumulated tax losses that can be carried forward are as follows:

	Loss carry-forwards	
Expiry Date	**Federal**	**Provincial**
	$	**$**
2037	4,593	4,645
2036	3,484	3,336
2035	5,893	5,726
2034	4,556	4,331
2033	6,283	6,008
2032	3,924	3,669
2031	4,920	4,610
2030	5,246	5,033
2029	6,021	5,665
2028	6,406	6,396
2027	4,951	5,427
2026	4,360	4,630
	60,637	59,476

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

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

	December 31, 2017	December 31, 2016
	$	$
Property, Plant and Equipment	**4,456**	3,297
Intangible Assets	**(307)**	(443)
Financing Fees	**381**	660
SR&ED Expenditures	**11,098**	9,843
Investment tax credits, net of tax	**2,203**	1,979
Non-capital losses	**60,638**	52,624
	78,469	67,960

Notes to the Consolidated Financial Statements

Years ended December 31, 2017 and 2016 (In thousands of US dollars, unless otherwise indicated)

19. Research and Development Tax Credits

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

For the purpose of the establishment of these tax credits, eligible research and development expenses incurred during the fiscal year 2017 totaled $0.7 million ($0.3 million in 2016).

The Company also qualifies for tax credits refundable scientific research of $0.2 million as at December 31, 2017 ($0.1 million in 2016).

20. Segmented Information

The Company is structured as a single operating segment.

Revenues	**$**	**2017 %**	$	2016 %
Canada and Worldwide	**424**	**2**	336	3
United States	**19,362**	**98**	12,965	97
	19,786	**100**	13,301	100

	Inventories	**Property, Plant and Equipment**	**2017 Intangible Assets**	Inventories	Property, Plant and Equipment	2016 Intangible Assets
Canada and Worldwide	**1,616**	**1,306**	**1,870**	1,638	1,069	1,836
United States	**424**	**1,878**	**16**	65	1,288	-
	2,040	**3,184**	**1,886**	1,703	2,357	1,836

For the year 2017, revenue from Getinge represented 98% of the Company's total revenues in conjunction with Getinge and TSO_3's exclusive distribution agreement (same % in 2016).

21. Loss per Share

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

In thousands of us $, except per share amounts	**2017 $**	2016 $
Net loss		
Basic and Diluted	**(7,454)**	(4,379)
Number of Shares		
Weighted Average Number of Outstanding Shares	**92,508,009**	90,810,123
Number of Shares		
Weighted Average Number of Outstanding Shares Diluted[(1)]	**92,508,009**	90,810,123
Loss per Share		
Basic and Diluted	**(0.08)**	(0.05)
Comprehensive loss per Share Basic and Diluted	**(0.08)**	(0.05)

1) If the Company had a positive profit, the weighted average number of outstanding shares diluted would have been increased by 3.9 million as of December 31, 2017 (6.5 million as of December 31, 2016) for the calculation of the diluted net loss per share.

Notes to the Consolidated Financial Statements

Years ended December 31, 2017 and 2016 (In thousands of US dollars, unless otherwise indicated)

22. Contractual Commitments

As at December 31, 2017, the contractual commitments in the fiscal years to come are as follows:

In thousands of us $	2018 $	2019 $	2020 $	2021 $	2022 $
Operating leases and service contracts	262	190	158	6	6

Operating leases relate to leases of premises with lease terms of one or five years. The Company does not have an option to purchase the leased premises at the expiry of the lease periods. For the year ended December 31, 2017, lease expenses were $0.3 million ($0.2 million for the year ended December 31, 2016).

23. Subsequent Event

On January 25, 2018, the Company entered into the Sales and Repurchase Agreement with Getinge in a joint effort to increase sales to end users and optimize the customer experience. The Sales and Repurchase Agreement allows the Company to sell its STERIZONE® VP4 Sterilizers and associated products and services directly into the United States and Canada and shall repurchase not less than 100 STERIZONE® VP4 Sterilizers for $3.3 million. Getinge will continue to sell STERIZONE®VP4 Sterilizers in North America and the rest of the world and the parties have agreed to a customer selection mechanism to prevent the likelihood of channel conflict.

The parties have also agreed to begin immediate negotiations on additional modifications to the distribution relationship, either through a new agreement or a modification of the Getinge Agreement, with the objective of further increasing the speed, flexibility and effectiveness of the relationship. The Sales and Repurchase Agreement and the Getinge Agreement will terminate on August 1, 2018 unless extended by mutual agreement. If agreement between the parties is not reached, TSO_3 has agreed, by July 1, 2019, to repurchase Getinge's remaining STERIZONE® VP4 Sterilizers at the same unit price in the Sales and Repurchase Agreement. In the event the Getinge Agreement terminates, Getinge would lose licensing and other rights made available by the agreement, and the Company's only other recourse against Getinge would be to retain in full the $7.5 million license fee payment made by Getinge when the Getinge Agreement was entered into and require Getinge to accept delivery and pay for units under any then outstanding purchase orders (see Note 2).

24. Approval of Financial Statements

The consolidated financial statements were approved by the Board of Directors on March 20, 2018.

Directors

Germain Carrière, Chairman of the Board of Directors, Corporate Directors

Pierre Désy [1) 3)]**,** Corporate Director

Jean Lamarre, [2) 3) 5)]**,** President, Lamarre Consultants, Corporate Director

Claude Michaud [1) 2)]**,** Corporate Director

Jeffrey Pompeo 2[)]**,** President and Chief Executive Officer of CareTaker Medical Corporation

Jean-Pierre Robert [2) 4)]**,** Corporate Director

Linda Rosenstock [3)]**,** Corporate Director

Richard M. Rumble [4)]**,** President and Chief Executive Officer, TSO_3

Steve West [1) 3) 4)]**,** Corporate Director

1) Member of the Audit Committee and Risk Management Committee
2) Member of the Human Resources
3) Member of the Corporate Governance and Nominating Committee
4) Member of the Strategic Committee
5) Mr. Lamarre passed away in November 2017

Investor's Information

Bank
National Bank of Canada

Computershare Trust Company of Canada
1500, rue Université, bureau 700, Montréal (Québec), H5A 3S8
T: 514 982-7888 | F: 514 982-7580

Independent Auditor
Deloitte LLP, La Tour Deloitte, 1190, avenue des Canadiens-de-Montréal, suite 500, Montréal (Québec)
T: 514 393-7115 | F: 514 390-4116

Intellectual Property Solicitors
Borden Ladner Gervais LLP, Ottawa

TSO_3 Investors Relations

Gilmartin Group, Greg Chodaczek
T: 610-368-6505 | Email: greg@gilmartinir.com

Renmark Financial Communications, Inc., Barry Mire
T: 416 644-2020 or 514 939-3989 | Email bmire@renmarkfinancial.com

TSO_3 Inc.
2505, av. Dalton, Québec (Québec) G1P 3S5
T: 418 651-0003 | F: 418 653-5726 | Email: info@tso3.com

TSO_3 Corporation
1636 American Way, Myrtle Beach, SC 29577
T: 843 839-0403 | F: 843 839-1118 | Email: info@tso3.com

Ticker symbol: TOS | Listing: TSX | www.tso3.com

Annual Shareholders' Meeting

Wesnesday, May 9, 2018 at 10:30 am
Musée national des beaux-arts du Québec
National Battlefields Park
Québec City, Qc G1R 5H3

R.M. Ric (Rumble) | President and CEO | T: 418 651-0003 | F: 418 651-2288 | Email: rrumble@tso3.com

Glen Kayll | CFO | T: 843 839-0403 |F: 843 839-1118 | Email: gkayll@tso3.com

Germain Carrière | Chairman | Email: germain.carriere@gmail.com