2014 ANNUAL REPORT

Creating the Improved Standard in Sterile Reprocessing™

TSO3

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Message from the Chairman of the Board

Dear Shareholders

As Chairman of the Board of TSO_3, I am pleased to say that the Company has achieved a major milestone in its history. The recent clearance granted by the Food and Drug Administration (FDA) not only clears the path to market our new generation sterilizer product in the United States but also creates a new family of sterilization technology: the two or more sterilant sterilization.

We know that this clearance took time, but the Company earned it and the claims cleared by the regulatory agency offer clearly superior outcomes for customers employing the technology. During the pursuit of this clearance, through its various committees and meetings with management, the Board maintained a watchful oversight on the use of corporate resources to assure the maximum opportunity for success.

As a Board, we fully support management's position regarding the Company's commercial strategy. Care is being taken to assure that potential agreements, while offering short term results, do not create longer term constraints, obligations or impairments that may reduce shareholder value.

As a Board, we believe that the appropriate terms and conditions are incorporated into commercial arrangements being discussed. In order to carry out its responsibilities with regard to the financial stability of the Company, management maintains internal control systems and procedures that aim to provide a reasonable degree of certainty that the assets are well protected, and that financial statements reflect accurately the financial situation of the Company. The Board of Directors is satisfied that management assumes its responsibility in that matter.

As Chairman of the Board, I have been closely monitoring the challenges that the team has had to overcome. I have seen the team efforts rewarded with this all-important clearance and I have never been more confident in the opportunity that lies ahead. The Board of Directors will continue to be there to advise, challenge and provide appropriate directions as the management of the Company initiates and increases the level of commercial and operational activities.

Germain Carrière

Message from the Chief Executive Officer

Dear Valued Shareholders:

Over the past years we have pursued the creation of, and clearance for a new low temperature sterilization technology. After a great deal of effort, we accomplished this on December 17, 2014, the day we received three Food and Drug Administration (FDA) 510(k) clearances for our new sterilization system. With these clearances, in addition to Canada and Europe, we may now market our technology in the USA.

The US regulatory agency's review of our technology resulted in them issuing a brand new, first-of-its-kind Product Code. This new Product Code identifies sterilization technologies using two or more sterilants. In the case of TSO_3's STERIZONE® VP4 Sterilizer, the agency recognized the use of hydrogen peroxide and ozone as the sterilants.

The regulatory clearance supports our superior claims package. TSO_3's STERIZONE® VP4 Sterilizer offers our customers the ability to simultaneously sterilize multiple flexible, rigid and general medical devices, and our customers can process to a total weight of 75 pounds of instrumentation in a single cycle. Customers no longer need to select "flexible" or "rigid" instrument loading restrictions based on the limitations of competitive cycles.

It is time to initiate commercial activities. The Company has stated repeatedly that it is in discussions with possible channel partners, which include GETINGE AB's Infection Prevention division as well as others. Commercialization takes resources and to that end the Company completed a round of financing for gross proceeds of C$11.5 million in March of this year. On the heels of the financing round the Company was pleased to announce that it had signed the first sales and service support agreement with Getinge. While additional agreements remain targeted this ever so important first collaboration allows the Company to establishing a presence in targeted markets and keep control of the product and its intellectual property.

With commercial actions now either planned or underway, we must also focus on our operations to assure that we can produce the required volume as it materializes. To that end, in December of 2014, the Company completed its first FDA Quality System audit. Passing such an audit was not a surprise as we have had similar audits with Health Canada in the past. We continue to look for and augment our team with well qualified supply-chain experienced personnel to ensure that our growth is appropriately managed.

As stated, 2014 was expected to be a transformational year for the Company which it has been. As we plan for 2015, the Company will selectively invest in product development efforts in order to focus on the path to commercial success together with its sales and service partners. It is time to deliver the value of our innovative technology to customers in multiple regions of the world.

In closing I would like to congratulate the dedicated employees of TSO_3 in achieving this unique "first-in-class" technology position and thank them in advance for the role they will play in delivering this new generation technology to customers. I would like to thank our Board of Directors for their continued counsel and direction. Most importantly I would like to thank you our shareholders and owners of the company for your continued support.

R.M. (Ric) Rumble

Overview

Who We Are and What We Do

TSO_3 was founded in June 1998 in Québec City and employs 35 people as at December 31, 2014. The Company's activities encompass the sale, production, maintenance, research, development and licensing of sterilization processess, related consumable supplies and accessories for heat-sensitive medical devices. The Company designs products for sterile processing areas in the hospital environment that offer an advantageous replacement solution to other low temperature sterilization processes currently used in hospitals. It also offers services related to the maintenance of sterilization equipment and compatibility testing of medical devices with such processes.

The First Generation Technology

Initially, TSO_3 developed a sterilizer using a unique sterilization process based solely on ozone as the sterilizing agent. It offered superior sterile efficacy and lower operating costs compared to competitive systems and was considered a "green" technology. However, this first generation product provided limited instrument compatibility and a relatively long sterilization cycle.

This first generation sterilizer received regulatory clearances from both Health Canada and the United States Food and Drug Administration (FDA).

Despite its advantages, this first generation product did not succeed in addressing the overall market needs for compatibility, fast turn-around times and high-throughput and therefore, had limited commercial success achieving, only 38 sales in North America by TSO_3's own sales force over a period of five years.

A New Approach

In 2009, the Company developed the new STERIZONE® 125L+ Sterilizer utilizing hydrogen peroxide and ozone, as sterilizing agents, equipped with its new *Dynamic Sterilant Delivery System*™. This new product provided both improved cycle time and material compatibility enabling increased throughput of a wider range of medical devices, including some of the most complex and delicate instruments used in Minimally Invasive Surgeries (MIS). The STERIZONE® 125L+ Sterilizer was licensed by Health Canada in 2009 and CE marked in 2010.

In December 2014, TSO_3 achieved another major milestone of its history, when it received a 510(k) clearance from FDA of the United States for the commercialization of its STERIZONE® VP4 Sterilizer. This model is similar to the 125L+ sterilizer, except that it features a single cycle that can simultaneously sterilize flexible medical devices and rigid medical devices and general instruments in the very same load. The FDA recognized the superior claims of this sterilizer by issuing a brand new Product Code ("PJJ"), representing sterilization technologies using two or more sterilants. The STERIZONE® VP4 Sterilizer is the only product in this Product Classification.

The single cycle of the STERIZONE® VP4 Sterilizer can sterilize a large number and wide range of compatible devices, thereby allowing for cost-effective error-free sterilization process. TSO_3's unique *Dynamic Sterilant Delivery System*™ automatically adjusts the quantity of injected sterilant based on the load composition, weight and temperature. With its large 75-lb load capacity and a short cycle time, the STERIZONE® VP4 Sterilizer meets the requirements of the hospitals' Central Sterilization Departments in terms of cost reduction and high throughput, and enables the replacement of a combination of competitive sterilization methods.

Our Business Environment and the Market Drivers

Sterile reprocessing of medical devices is essential to ensure positive surgical outcomes. The use of non-sterile surgical instruments contributes to increased infection rates. It increases patient hospital stays, drives up cost of care and can lead to increased mortality rates.

The growing and aging population worldwide (65 years +) demands more of the Operating Room (OR) time, which in turn creates greater and growing demand for efficacious and high-throughput sterilization methods.

Today, it is not uncommon to find sterile reprocessing of instruments conducted in three areas of the hospital. These are the Central Sterile Department (CS), the sub-sterile area of the 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 as such, 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 those of the past. Currently, the trend continues towards the practice of Minimally Invasive Surgery (MIS). Devices used in MIS are complex, expensive and delicate, and in most cases, do not tolerate the steam sterilization process – they require low temperature sterilization. These high-demand devices are a challenge for sterilization and are a major financial investment for hospitals.

Our Competitive Landscape

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

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

Another method that played an important role in a sub-segment of low temperature sterilization is that of Liquid Chemical Sterilization. This type of process is used directly in the OR as a just-in-time method to complement the CS Department's sterile production. The GI department remains a heavy user of Liquid Chemical Sterilization. Liquid systems require rinsing with extensively treated water that cannot be assured to be sterile. As such, instruments also cannot be assured to be sterile when used on a patient.

Each of these sterilization methods offers benefits to the customers, but none is a complete solution matching the customer need for high and cost effective throughput of complex and expensive medical devices. Therefore, customers have to purchase and support a combination of products to meet their daily requirements for sterile supplies. The Company believes that its technology offers a single solution to address customer needs.

2014 Annual Review

Regulatory Status

TSO_3 currently holds commercial clearance in Canada and Europe for the STERIZONE® 125L+ Sterilizer, as well as its accessories and consumables. On December 17, 2014, TSO_3 obtained commercial clearance to market in the United States the STERIZONE® VP4 Sterilizer, as well as its accessories and consumables. The two sterilizer products share much of the same platform, but their approved claims are different.

The clearance in the US allows the Company to sell the product in the world's largest sterilization market. The 510(k) was received with a newly assigned Product Code, which highlights the uniqueness of our technology and establishes a new benchmark in the field of low temperature sterilization.

New Product Development

The terminal sterilization solution developed by the Company can be favorably applied to multiple segments of the low-temperature sterilization market. In order to add to its revenue stream, TSO_3 initiated the development of additional products based on its patent-pending STERIZONE® technology.

The first of these new products, the STERIZONE® 80L Sterilizer, is targeting the need for a smaller device in the Operating Room sub-sterile area in the North American market, as well as a lower price-point product for some international markets.

Projects in development were virtually halted in January 2014 simultaneously with the announcement of the collective dismissal of 30% of the Company's workforce in order to protect the Company's cash resources against the risk that the US regulatory clearance would experience additional delays. As a result minimal work was performed on the STERIZONE® 80L Sterilizer since January 2014.

Recent Commercial Activities

In 2011, the Company initiated marketing in Canada of the STERIZONE® 125L+ Sterilizer under a distribution agreement with the 3M Company. On June 15, 2012, the Company issued a notice to the 3M Company terminating the distribution agreement. Following that termination, the Company has not allocated significant resources to marketing and sales, because these resources would have been diverted from its core objective of gaining regulatory clearance for the US market. Consequently, since June 2012, sales were essentially reduced to (1) services delivered to support the older 125L ozone-only Sterilizer, which installed base was seriously eroded as a result of the upgrade program successfully completed by TSO_3 in Q2-2012, and (2) consumables and maintenance services for the installed base of STERIZONE® 125L+ Sterilizers.

Write-Off of Assets and Discontinuation of the Ozone-only 125L Sterilizer

In November 2014, the Company decided to discontinue supporting its first generation sterilizer, the 125L ozone-only sterilizer that it had marketed up to 2008. Further to that decision, the Company also decided to retire that technology from its portfolio of active technologies. As a result of these decisions, the Company wrote-off all inventories and fixed assets as well as some of the patents related to that technology.

Further to improvements in the mechanical components of the newer STERIZONE® 125L+/VP4 Sterilizers, the Company also wrote-off parts inventory no longer in use or obsolete. Finally, in order to complete tests for regulatory clearance and/or compliance, the Company had to dismantle or otherwise made inoperable some of its STERIZONE® 125L+ Sterilizers utilized internally.

Intellectual Property

In 2014, the European and Hong Kong Patent Offices granted to the Company a patent describing a method for controlling condensation of hydrogen peroxide (H_2O_2) when sterilizing medical devices with hydrogen peroxide, either used alone or in combination with ozone or other chemistries. In addition, the Company has also been notified by the European Patent Office of its decision to grant four other patent covering distinctive aspect of TSO_3's technology.

Also in 2014:

- The Australian Patent Office granted seven patents on various aspects of TSO_3's technology.
- A Japanese patent has been granted on a core aspect of TSO_3's technology while the Canadian Patent Office recently notified the Company of its intent to grant a corresponding patent in Canada.
- 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.
- A new patent application was filed in the US related to biological indicators (BI) used to monitor effectiveness of a sterilization process.

Patent applications similar to those granted in Australia, Europe and Japan are 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.

2015 Focus

- Secure and support commercial agreement(s) with one or more partners to launch the STERIZONE® Sterilization System in the United States as well as other available markets;
- Expand claims for the existing STERIZONE® Sterilization products, including compatibility endorsements from medical devices manufacturers, and re-initiate work on the STERIZONE® 80L Sterilizer;
- Initiate production activities to meet demand;
- Maintain compliance with existing regulatory clearances and other applicable laws and regulations.

Management Discussion and Analysis

The Management discussion and analysis (MD&A) is intended to help readers assess, through the eyes of management, the financial position and results of operations of TSO_3 Inc. ("TSO3" or the "Company") for the twelve-month period ended December 31, 2014 and to compare them with the twelve-month periods ended December 31, 2013. This information is dated March 17, 2015 and should be read in conjunction with the Annual Audited Financial Statements and the accompanying notes. Unless specified otherwise, all amounts are stated in Canadian dollars.

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

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

This MD&A contains forward-looking information. A statement about the forward-looking information can be found on pages 7-8 as well as the associated risks and uncertainties can be found on pages 23 to 30 of the report.

Forward Looking Statements

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

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

- Business and economic conditions;
- The ability to obtain sufficient quantities of materials when needed;
- The ability to obtain regulatory authorizations to market its product;
- The ability to attract and retain skilled staff;
- Market competition;
- Tax benefits and tax rates;
- The ability to complete research and development work;
- The ability for the Company to market its products.
- The ability for the Company to attract capital.

These forward-looking statements involve risks and uncertainties relating to, among other things, commercial operations, compatibility, biocompatibility and research and development projects, dependency on key personnel, management of business growth, intellectual property and counterfeiting, competition, product liability issues, litigation, regulatory approvals and financial instruments. Actual results and developments are likely to differ, and may differ materially, from those expressed or implied by the forward-looking statements. Factors that could cause actual results to differ materially include, but are not limited to, the risk factors described under the section “Risk factors” of this report.

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.

Non-IFRS Financial Measures

This MD&A was prepared using results and financial information determined under IFRS. In addition to IFRS financial measures, management uses non-IFRS measures to assess the Company’s operational performance. It is likely that the non-IFRS financial measures used by the Company will not be comparable to similar measures reported by other issuers or those used by financial analysts as their measures may have different definitions. The measures used by the Company aim 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 to be useful in assessing the Company’s capacity to discharge its financial obligations.

By excluding from results items that arise mainly from long-term strategic decisions and/or do not, in management’s opinion, reflect the Company’s operating performance for the period, such as (1) the write-off of tangible or intangible assets, (2) research and development tax credits, which recognition is volatile, varies with changes in tax laws, or may not match the timing of related eligible expenditures, and (3) other significant unusual items, we believe this MD&A helps users to better analyze the Company’s results and ability to discharge its obligations as they become due. Furthermore, the use of non-IFRS measures helps users by enabling better comparability of results from one period to another and better comparability with other businesses in the Company’s industry.

The non-IFRS measures that the Company uses to assess its operational performance include (1) adjustments in operating expenses designed to enable comparison of results from one period to another, and (2) a measure for the rate at which the Company is using its cash resources. Management believes these measures to be useful in assessing the Company’s capacity to discharge its current and future financial obligations.

Summary of Results

Years ended December 31 (Audited, IFRS Basis)

	2014	2013
	$	$
Sales	**432,987**	254,370
Expenses		
Supply Chain	**1,118,498**	1,064,957
Customer Support and Communications	**301,763**	524,817
Research and Development	**2,333,113**	3,502,505
Administrative	**2,720,249**	2 721 811
Settlement Cost	**-**	1,864,127
Financial Income	**(113,488)**	(183,687)
Financial Costs	**20,841**	30,009
Total Expenses	**6,380,976**	9,524,539
Net Loss before Income Taxes	**5,947,989**	9,270,169
IncomeTaxes	**-**	-
Net Loss and Comprehensive Loss attributable to Shareholders	**5,947,989**	9,270,169
Basic and Diluted Net Loss per Share	**0.08**	0.13
Weighted Average Number of Outstanding Shares	**73,123,794**	71,739,270

Results Analysis

In the following paragraphs, the Company discusses the variations of certain accounts within the annual periods ended December 31, 2014 and 2013.

SALES

The Company, since June 2012, has concentrated its efforts on securing the required regulatory clearance to market its products in the United States and has delayed developing sales until that clearance was obtained. Sales, since then, have primarily consisted of consumables and services and were made mostly in connection with the STERIZONE® 125L+ Sterilizer.

For the 2014 fiscal year, sales amounted to $432,987, as compared to $254,370 in 2013. The higher sales in 2014 reflect a higher utilization by the users of the installed base of sterilizers leading to increased sales of consumables, as well as an increase in maintenance and compatibility testing services.

WRITE-OFFS

Further to its decision to discontinue the support of its first generation sterilizer, the 125L ozone-only sterilizer that it had marketed until 2008, and to retire that technology from its portfolio of active technologies, the Company wrote-off all inventory, fixed assets related to that technology. This resulted in the write-off of assets with a net book value of $293,994.

The Company also wrote-off $56,010 in parts and consumable inventory which were no longer in use or obsolete. Finally, in order to complete tests for regulatory clearance and/or compliance, the Company had to dismantle or otherwise made inoperable some of its STERIZONE® 125L+ Sterilizers. This led to the net write-off of $91,889 from the sterilizers included in its fixed assets. In 2013, write-offs totaled $144,376 and were essentially in connection with expired consumable supplies and slow-moving part inventories.

The following table summarizes the write-offs and shows where these items were allocated in the Statement of Loss and Comprehensive Loss.

	125L Ozone only Sterilizer **$**	**Other than 125L Ozone Sterilizer** **$**	**2014** **Total** **$**	2013 Other than 125L Ozone Sterilizer $
Inventory	**133,767**	**56,010**	**189,777**	140,940
Fixed assets	**-**	**91,889**	**91,889**	3,436
Abandoned Patents	**160,227**	**-**	**160,227**	-
	293,994	**147,899**	**441,893**	144,376
Allocated to:				
Supply chain	**133,767**	**56,010**	**189,777**	140,940
Research and Development	**-**	**91,889**	**91,889**	-
Administrative Expenses	**160,227**	**-**	**160,227**	3,436
	293,994	**147,899**	**441,893**	144,376

The Company found that a license related to the 125L ozone-only sterilizer should have been amortized over a 9-year estimated life, instead of the 16-year used since 2004. Therefore, the Company corrected by $371,648 the 2013 opening balance of the accumulated amortization of the patent so as to have it fully amortized by the 2013 year-end. A corresponding correction was made to the Accumulated Deficit.

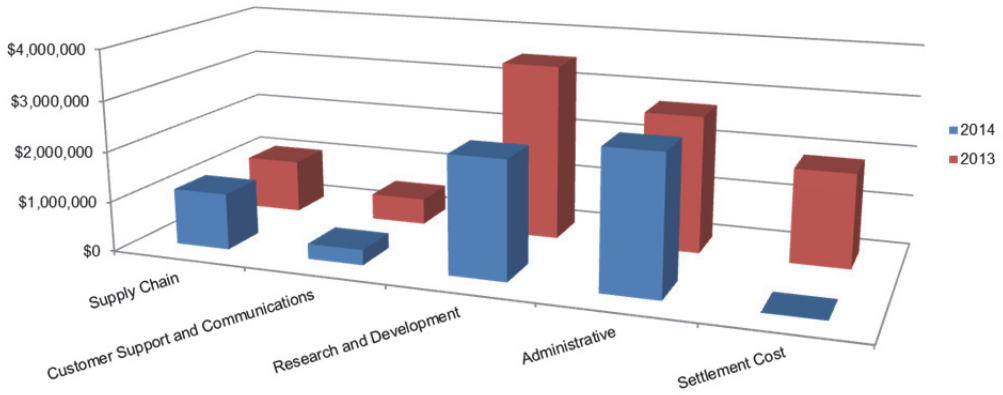
NET LOSS

In fiscal year 2014, the Company experienced a loss of $5,947,989 ($0.08 per share), as compared to $9,270,169 ($0.13 per share) in 2013. The year-to-year variations are reflecting operating issues as well as one-time items related to R&D tax credits, the write-off of assets related to the discontinued first-generation ozone-only 125L sterilizer, and the cost incurred in 2013 in connection with the settlement of the dispute with the 3M Company over the termination of the distribution agreement.

When adjusting the results to exclude the R&D tax credits, the write-off of assets related to the first-generation sterilizer and the settlement cost for the dispute with the 3M Company, the net loss in 2014 is $6,224,482 ($0.09 per share), as compared to $7,695,170 ($0.11 per share) in 2013. Most of that reduction is the result of the collective dismissal announced by the Company in January 2014, and the corresponding reduction in activities.

	2014 $	2013 $
As Reported		
Sales	**432,987**	254,370
Net Loss	**5,947,989**	9,270,169
Net loss per share	**0.08**	0.13
Adjusted to Exclude Settlement Cost, R&D Tax Credits and write-off related to the discontinued first-generation product		
Excluded Expenses		
R&D Tax Credit	**(570,485)**	(289,128)
Write-off of assets related to the discontinued first-generation product	**293,992**	-
Settlement Cost	**-**	1,864,127
Adjusted Net Loss	**6,224,482**	7,695,170
Adjusted Net loss per share (basis and diluted)	**0.09**	0.11

EXPENSES



Supply Chain

Supply Chain expenses include all expenses incurred in connection with (1) the outsourcing services provided by the Supply Chain Department to all departments, (2) the production costs, (3) the related quality control and assurance expenses, and (4) the shipping expenses.

For the fiscal year ended December 31, 2014, the Supply Chain expenses amounted to $1,118,498, as compared to $1,064,957 in 2013. The variation is largerly the result of the write-off of $133,767 in inventory for the production and maintenance of the discontinued ozone-only 125L sterilizer. Excluding those write-offs, the Supply Chain expenses were $984,731 in 2014, or about the same as in 2013, reflecting the fact that the increase in costs caused by higher sales was offset by the reduction in overhead and payroll that resulted from the cost reduction programs implemented by the Company.

Customer Support and Communications

For the fiscal year ended December 31, 2014, the Customer Support and Communications expenses amounted to $301,763, as compared to $524,817 in 2013. The smaller amount in 2014 is due to (1) a reduction in headcount further to the collective dismissal announced in January 2014, and (2) a decrease in the unallocated customer technical support costs as a result of a higher volume of maintenance services as the corresponding costs were reallocated to Supply Chain.

Research and Development

For the fiscal year ended December 31, 2014, Research and Development (R&D) expenses were $2,333,113, as compared to $3,502,505 in 2013. The year-to-year variation is explained by three items: (1) the write-off of $91,889 for sterilizers dismantled or otherwise made inoperable in connection with regulatory and compliance activities; (2) the variation in the recognition of R&D tax credits, and (3) a lower activity as a result of the moratorium placed on development activities other than those targeting the regulatory clearance in the US and the compliance with other clearances obtained by the Company.

	2014 **$**	2013 $
R&D Expenses – As reported	**2,333,113**	3,502,505
Write-off of Sterilizers	**(91,889)**	-
R&D Tax Credits Recognized	**570,485**	289,128
R&D Expenses – As adjusted	**2,811,709**	3,791,633

When the write-offs and the R&D tax credits are being excluded, the R&D expenses have decreased from $3,791,633 in 2013 to $2,811,709 in 2014, or a year-to-year decrease of $979,924. Most of that decrease occurred after the first quarter of 2014. The bulk of the reduction occurred in salaries and benefits and is a direct result of the collective dismissal of January 2014 which started generating cost savings beginning in Q2-2014.

Administrative

For the fiscal year ended December 31, 2014, the Company reported Administrative expenses of $2,720,249, as compared to $2,721,811 in 2013. The 2014 amount included the write-off of $160,227 for patents being abandoned in connection with the first-generation, ozone-only, 125L sterilizer. Excluding that item, administrative expenses were $2,560,022 in 2014, or $161,789 smaller than in 2013. Several items were smaller in 2014, including a decrease in salaries and benefits as a result of general compressions in expenses and a reduction in professional fees largely due to the settlement of the dispute with the 3M Company in June 2013. These cost reduction were however partly offset by an increase in the performance-based compensation which were reduced to *nil* in 2013.

Settlement Cost

For the fiscal year ended December 31, 2013 the Company had recorded a $1,864,127 cost in connection with the settlement that it reached with the 3M Company over the termination rights of the distribution agreement signed in December 2009. TSO_3 has always maintained, and still maintains, that both parties had the right to terminate that distribution agreement. However, the 3M Company was disputing that right and a protracted litigation might have caused the Company to incur legal expenses and may have impacted its ability to obtain the right terms with a potential strategic partner. Therefore, the Company decided to incur the Settlement Cost in order to achieve a definitive conclusion of any dispute over the terminated agreement.

The Settlement Cost was a one-time payment of USD$2,000,000 (C$2,110,000) partially offset by the return of $262,068 in inventory held by the 3M Company and increased by the write-off of certain receivables in the amount of $16,195.

Financial Income

For the fiscal year ended December 31, 2014, financial income amounted to $113,488, as compared to $183,687 in 2013. The decrease is due to smaller amounts of Cash, Cash Equivalents and Investments in 2014.

Financial Position Analysis

(Audited, IFRS Basis)

	2014	Restated 2013
	$	$
Cash and Cash Equivalents	**5,973,446**	6,637,408
Short-term Investments	**-**	2,971,123
Accounts Receivable	**257,694**	1,165,666
Inventories	**1,293,503**	1,407,411
Property, Plant and Equipment	**557,515**	1,048,099
Intangibles Assets	**2,432,653**	2,656,091
Accounts Payable and Accured Liabilities	**676,058**	578,185
Deferred Revenues	**82,019**	91,905
Equity	**9,859,028**	15,269,622

Liquid Assets

As at December 31, 2014, cash, cash equivalents and short-term investments amounted to $5,973,446, as compared to $9,608,531 as at December 31, 2013. The variation is largerly due to the cash absorbed by operations which was well in excess of the proceeds from the exercise of warrants and options during 2014.

Accounts Receivable

As at December 31, 2014, the accounts receivable were $257,694, as compared to $1,165,666 as at December 31, 2013. The accounts receivable in December 2014 and December 2013 included respectively $139,145 and $1,072,743 in amounts recoverable from governments for Research and

Development tax credits and input tax credits for sale taxes. The 2013 amount was large because it reflected not only the 2013 recoverable tax credits but also additional claims made by the Company for previous years. In 2014, the amount of recoverable tax credits decreased substantially due to the collection of amounts recoverable at the end of 2013 and to the reduction in both the amount of eligible expenditures and the rate of investment tax credit on these amounts.

Inventories

As at December 31, 2014, inventories amounted to $1,293,503, as compared to $1,407,411 as at December 31, 2013.

	2014 **$**	2013 $
Raw Materials	**918,993**	1,001,932
Work in Progress	**310,166**	262,053
Finished Goods	**64,344**	143,426
	1,293,503	1,407,411

Other than as a consequence of normal usage and turn over, the net variation of $113,908 in inventories during 2014 is the result of (1) the write-off of parts and consumable supplies related to the discontinued ozone-only 125L sterilizer, (2) the write-down of a STERIZONE® 125L+ Sterilizer which can no longer be sold as new because it was used for tests performed for regulatory and conformity purposes, and (3) the write-off of slow moving inventory.

Property, Plant and Equipment

In 2014, the Company added $23,496 to its Property, Plant and Equipment, as compared to $329,396 in 2013. Most of the expenditures in 2014 were for mandatory improvements to its premises, while those in 2013 consisted primarily in sterilizers and medical devices used as part of its research and development activities. During 2014, the Company also wrote-off a net amount of $91,888 as a result of dismantling or making inoperable sterilizers for regulatory and conformity purposes. Finally, although the Company eliminated all of its ozone-only 125L sterilizers, this did not result in a net write-off as these sterilizers were already fully depreciated.

Intangibles Assets

For fiscal year 2014, the Company capitalized $177,310 in intangible assets, as compared to $298,925 for the same period in 2013. These expenditures were made in connection with patents filed by the Company in order to improve the protection of its intellectual property. During 2014, the Company also decided to discontinue its support for the ozone-only 125L sterilizer and to abandon a number of patents related to that technology, This resulted in the write-off of patents with a net book value of $160,227.

Accounts Payable and Accrued Liabilities

As at December 31, 2014, accounts payable and accrued liabilities amounted to $676,058, as compared to $578,185 as at December 31, 2013. The variation is the net result of (1) a decrease in trade payable caused by a decrease in expenses and (2) an increase in performance-based compensation payable at year-end.

Deferred Revenues

Deferred revenues represent the unamortized portion of prepaid service contracts covering about two thirds of the installed base of STERIZONE® 125L+ Sterilizers. As at December 31, 2014, deferred revenues amounted to $82,019, as compared to $91,905 as at December 31, 2013.

Shareholders' Equity

As at December 31, 2014, Shareholders' Equity amounted to $9,859,028, as compared to $15,269,622 as at December 31, 2013. The variation is the result of the absorption of the operating deficit incurred in fiscal 2014 partly offset by the proceeds from the exercise of warrants and options.

Cash Flows Analysis

(Audited, IFRS Base)

	2014	2013
	$	$
Operating Activities	**(3,790,704)**	(8,988,442)
Investing Activities	**2,760,992**	1,568,676
Financing Activities	**365,750**	6,299,071

Operating Activities

Cash absorbed by Operating Activities amounted to $3,790,704 for the fiscal year 2014, as compared to $8,988,442 in 2013.

The lower amount of cash absorbed by operations during 2014 as compared to 2013 is due to (1) the fact that in 2013, the Company paid US$ 2,000,000 in connection with its settlement with the 3M Company, (2) operating expenses were lower in 2014, and (3) the Company collected in 2014 $1,020,688 in R&D tax credits related to years 2011 and 2012.

Investing Activities

For the fiscal year ended December 31, 2014, Investing Activities generated $2,760,992, as compared to $1,568,676 in 2013. Other than immaterial variations resulting from re-investing funds from investments that had expired, or transferring funds from an investment account to a bank account, Investing Activities absorbed $200,806 in 2014, as compared with $500,306 in 2013. The reduction in 2014 was the result of the elimination of capital expenditures on medical devices used for R&D activities, and lower expenditures on patents.

Financing Activities

For the fiscal year ended December 31, 2014, $365,750 were generated by Financing Activities as warrants and options were exercised. During the same period in 2013, Financing Activities generated $6,299,071 mostly as a result of a share issue closed on March 4, 2013.

Summary of Quarterly Results

(Unaudited, IFRS Basis)

This table shows the quarterly evolution of sales, settlement cost, net loss and net loss per share.

($000 EXCEPT LOSS/SHARE)	**2014**				2013			
	Q4	**Q3**	**Q2**	**Q1**	Q4	Q3	Q2	Q1
Sales	**120**	**99**	**132**	**82**	98	43	37	76
Settlement Cost	**-**	**-**	**-**	**-**	10	(69)	1,923	-
Net Loss	**(1,635)**	**(1,427)**	**(1,325)**	**(1,561)**	(1,415)	(1,949)	(3,806)	(2,100)
Net Loss per Share (basic and diluted)	**(0.02)**	**(0.02)**	**(0.02)**	**(0.02)**	(0.02)	(0.03)	(0.05)	(0.03)

Fourth Quarter Analysis

(Unaudited, IFRS Basis)

Three-month period ended December 31, 2014, compared to the three-month period ended December 31, 2013:

	FOURTH QUARTER 2014	FOURTH QUARTER 2013
	$	$
Sales	**120,506**	98,202
Expenses		
Supply Chain	**411,252**	325,902
Customer Support and Communications	**67,471**	94,851
Research and Development	**543,357**	709,370
Administrative	**751,320**	404,262
Settlement Cost	**-**	10,098
Financial Income	**(22,138)**	(40,414)
Financial Costs	**4,867**	9,323
Total Expenses	**1,756,129**	1,513,392
Net Loss before income Taxes	**(1,635,623)**	(1,415,190)
Income Taxes	**-**	-
Net Loss and Comprehensive Loss attributable to Shareholders	**(1,635,623)**	(1,415,190)
Basic and Diluted Loss per Share	**(0.02)**	(0.02)
Weighted Average Number of Shares Outstanding	**73,378,113**	73,000,906

SALES

For the three-month period ended December 31, 2014, total revenues amounted to $120,506 primarily representing the sale of consumable supplies, service contracts, and after-sale service as compared to $98,202 for the same period in 2013.

The increase in 2014 from 2013 is primarily the result of a larger number of maintenance contracts with users of the Company's sterilizer, and larger sales of consumable supplies.

NET LOSS

For the three-month period ended December 31, 2014, the Company recorded a net loss of $1,635,623, or $0.02 per share, compared to a net loss of $1,415,190, or $0.02 per share for the same period in 2013. The increase in loss from Q4-2013 to Q4-2014 is the consequence of the write-off of $428,072 (out of $441,891 for the whole year) in connection with the discontinuance of the first-generation ozone-only sterilization platform, the dismantling or loss of usage of STERIZONE® 125L+ Sterilizers as part of regulatory or compliance activities, and the write-off of slow-moving inventories or expired consumables. Other than for this write-off, the loss was smaller in Q4-2014 because cost compression measures implemented during the year had a larger impact than the resumption of incentive-based compensation which was non existent in 2013.

EXPENSES

Supply Chain

For the three-month period ended December 31, 2014, supply chain expenses amounted to $411,252, as compared to $325,902 for the same period in 2013. The increase experienced in 2014 is mainly the result of the write-off of expired or slow-moving inventories.

Customer Support and Communications

For the three-month period ended December 31, 2014, customer support and communications expenses amounted to $67,471, as compared to $94,851 for the same period in 2013. The decrease is primarily due to the cost containment measures implemented in Q1-2014, including the collective dismissal announced in January 2014.

Research and Development

For the three-month period ended December 31, 2014, research and development expenses amounted to $543,357, as compared to expenses of $709,370 for the same period in 2013. The decrease is primarily due to the cost containment measures implemented in Q1-2014, including the collective dismissal announced in January 2014.

Administrative

For the three-month period ended December 31, 2014, administrative expenses amounted to $751,320, as compared to $404,262 for the same period in 2013. The difference between the two periods is primarily explained by the write-off of $160,227 in abandoned patents, and an increase in incentive-based compensation due to the fact that, in Q4-2013, accruals for such compensation were reversed.

Cash Flows Analysis

(Unaudited, IFRS Basis)

	FOURTH QUARTER	
	2014	2013
	$	$
Operating Activities	**(906,698)**	(1,630,044)
Investing Activities	**1,415,528**	(565,240)
Financing Activities	**42,000**	-

Operating Activities

Cash absorbed by Operating Activities amounted to $906,698 for the three-month period ended December 31, 2014, as compared to $1,630,044 for the same period in 2013. The lower amount in 2014 was due to the release of funds from working capital in Q4-2014 as compared with an absorbtion of funds in Q4-2013.

Investing Activities

For the three-month period ended December 31, 2014, cash flows generated by the Investing Activities amounted to $1,415,528 while these activities absorbed an amount of $565,240 for the same period in 2013. The variation experienced in Q4-2014 as compared to Q4-2013 was primarily the result of the monetization of short-term investments.

Financing Activities

For the three-month period ended December 31, 2014, option holders exercised options for an amount of $42,000. There were no other financing activities in Q4-2013.

Segmented Information

The Company is structured as a single operating segment.

Substantially all property, plant and equipment of the Company are located in Canada.

Sales are allocated between geographic areas based on the location of the invoiced client and are as follows for periods ended December 31:

	FOURTH QUARTER				TWELVE MONTHS			
	2014		2013		**2014**		2013	
	$	**%**	$	%	**$**	**%**	$	%
Canada	**112,995**	**94**	88,533	90	**351,783**	**81**	212,047	83
Rest of the world	**7,511**	**6**	9,669	10	**81,204**	**19**	42,323	17
	120,506	**100**	98,202	100	**432,987**	**100**	254,370	100

Contractual Commitments

As at December 31, 2014, the contractual commitments for future fiscal years are as follows:

	2015 $	2016 $	2017 $	2018 $	2019 $
Operating leases and service contracts	140,000	9,000	8,000	1,000	-

Off-Balance Sheet Arrangement

Other than disclosed under the heading "Contractual Commitments" and purchase orders issued in the normal course of business, the Company made no off-balance sheet arrangement during the fiscal year 2014.

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 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, 2014, an amount of $25,020,000 in tax assets would have been recorded based on an effective rate of 15% for federal taxes and 11.9% for provincial taxes. At December 31, 2013, the net amount was $24,588,000.

Capital Resources

The Company needs capital primarily to finance its research and development activities, its supply chain, administrative and customer support and communications expenses, its working capital and its capital expenditures. The Company's capital is comprised of share capital, reserve for share-based compensation and reserve for warrants.

In the past, the Company has financed its activities primarily through equity issues and, to a much lesser extent, through research and development tax credits. Given its history of negative earnings, it is unlikely at the present time that the Company could access senior debt financing for any meaningful amount from traditional sources such as commercial banks.

As at December 31, 2014, the number of outstanding shares was 73,399,656.

In connection with its monitoring of the cash position of the Company, management uses a non-IFRS measure designated as the *"cash burn rate"* or *"burn rate"*. Such measure is equal to the variation in liquidities (cash, cash equivalents, and short-term investments) during a period augmented by the net cash proceeds from financings during such period.

For the twelve-month period ended December 31, 2014, the average monthly burn rate was $333,403 as compared to $791,478 for the same period in 2013. The burn rate in 2014 has benefited from the collection of additional claims for R&D tax credits for years 2011 and 2012, and the burn rate in 2013 was inflated by the payment of US$ 2,000,000 made as part of the settlement with the 3M Company.

When adjusted for these non recurrent items, the average burn rate for the 12-month period ended December 31, 2014 is $460,155, as compared to $625,820 in 2013. Most of the decrease occurred in the second, third and fourth quarters of 2014 when the average monthly burn rate was reduced to $430,355 as a result of the contraction of activities further to the collective dismissal of January 2014.

As at December 31, 2014, the Company had $5,973,446 in liquidities (cash, cash equivalents and short-term investments). Based on the monthly burn rate of $430,355 experienced since the cost reduction program implemented in the first quarter, these liquidities would be sufficient to finance the Company's activities until the middle of the first quarter of 2016. However, as the Company obtained on December 17, 2014 the regulatory clearance to market its products in the US, the Company intends to ramp up its operations and, in particular, activities related to marketing and sales and compatibility endorsements from medical devices manufacturers. In addition, as sales materialize, the Company will need to increase its working capital in order to support production and sales activities. This should translated into larger cash requirements, which size will ultimately depend on the success of the STERIZONE® VP4 sterilization platform in the US. For these reasons, after the year-end, the Company closed an equity issue with gross proceeds of $11,500,000 (see below "Subsequent Event").

The Company invests its liquidities 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.

Subsequent Event

On March 5, 2015, the Company has closed an equity issue consisting of 9,200,000 units in the capital of the Company at the price of $1.25 per unit for aggregate gross proceeds of $11,500,000.

Each unit was comprised of one common share and one common share purchase warrant entitling the holder thereof to acquire one common share at a price of $1.875 at any time prior to March 5, 2017. The Warrants are subject to an accelerated expiry if, at any time after September 30, 2015, the closing price of the common shares on the TSX stock exchange is equal or larger than $2.00 for any 10 consecutive trading days.

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 compensations warrants. Each compensation warrant enables its holder to purchase one common share of the Company at the price of $1.25 until March 5, 2016. Net cash proceeds from the issue were estimated at $10,445,000 after payment of the underwriters' commission and expenses of $250,000.

Use of Proceeds from Previous Offerings

The following disclosure is made in compliance with paragraph (i) of Item 1.4 of Form 51-102F1 of National Instrument 51-102 of Canadian Securities Laws applicable to the Company which requires the Company to compare in tabular form previous public disclosure made about how the Company was to use proceeds (other than working capital) from any financing and to provide an explanation of variances and the impact of the variances, if any, on the Company's ability to achieve its business objectives and milestones.

On February 25, 2013, the Company issued a prospectus in connection with a share issue expected to close on March 4, 2013 with estimated net proceeds of $6,300,000. The following table shows the disclosure on how the Company was then estimating to spend, over the next 18 months, the net proceeds from the issue augmented by other cash resources of the Company (as the amount of

liquidities on hand on the date of the prospectus was not yet publicly disclosed, such amount was there calculated from items disclosed in the documents incorporated by way of reference in the prospectus):

	Use of funds as originally planned $	Actual use of funds $	Variance $
Liquidities on hand as at September 30, 2012	14,786,000	N/A	N/A
Less: Estimated cash consumption from October 2012 through February 2013	(4,000,000)	N/A	N/A
Estimated liquidities on closing of issue on March 4, 2013	10,786,000	11,266,921	480,921
Estimated net proceeds from the issue	6,300,000	6,230,309	(69,691)
Estimated available funding on March 4, 2013	17,086,000	17,497,230	411,230
Uses of funds over the following 18 months			
Supply chain initiatives to enhance quality, cost and efficiency	300,000	-	(300,000)
Scientific research and experimental development			
Enhancements to the STERIZONE® 125L+ Sterilizer	1,000,000	86,292	(913,708)
Complete development of STERIZONE® 80L Sterilizer Accessories	2,000,000	994,094	(1,005,906)
Cycle enhancement (reduced time), STERIZONE® 125L+ and 80L	1,000,000	1,099,464	99,464
Initiate and complete concept (Phase 1) new product (GI)	1,000,000	-	(1,000,000)
Advance list of tested and compatible medical devices	300,000	434,073	134,073
Other Research and Development Activities	-	1,801,951	1,801,951
Sub-total – Scientific research and experimental development	5,300,000	4,415,874	(884,126)
General corporate and administrative purposes	8,000,000	5,987,610	(2,012,390)
Total Use of funds from March 4, 2013 to August 31, 2014	13,600,000	10,403,484	(3,196,516)
Cash and Working Capital estimated for August 31, 2014	3,486,000	7,093,746	3,607,746

The variances between the planned use of net proceeds, as disclosed in the prospectus dated February 25, 2013 and the actual use of net proceeds are primarily the result of the delays that the Company experienced in securing the required regulatory clearances to market its dual sterilant product in the US. Such delays led the Company to:

- Cancel its planned supply chain initiatives due to smaller supply chain requirements;
- Reduce the number of enhancements to the 125L+ sterilizer because the product could not be significantly modified from the version under regulatory examination;
- Suspend the development of the STERIZONE® 80L product
- Delay the initial work of a sterilizer designed to target the gastro-intestinal ("GI") market; and
- Reallocate research and development resources to other activities primarily aiming at supporting the filings made by the Company to obtain the US regulatory clearance.

In addition, as a result of delays in obtaining the US regulatory clearance, the Company initiated cost compressions in the second half of 2013 and announced a collective dismissal in January 2014 in order to save cash. This resulted in smaller general corporate and administrative uses and a larger cash balance at the end of the 18-month horizon envisioned in the February 25, 2013 prospectus.

The variances will not prevent the Company to achieve its business objectives and milestones and do not change these business objectives and milestones. However, such achievement have been delayed as a result of the delay experienced in obtaining the US regulatory clearance.

Accounting Policies

See note 2 and 3 of our Annual Audited Financial Statements for the year ended December 31, 2014 for a detailed presentation of accounting policies, critical accounting judgments, key source of estimation uncertainty and futures accounting changes.

Risk Factors

The Company has identified certain risks and uncertainties that 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 expected to be exhaustive but investors should carefully consider them before purchasing securities of the Company. Accordingly, the Company does not, and nor should shareholders of the Company or purchasers of common shares, rely on forward-looking statements as a prediction of actual results. In addition, investors should understand that the Company operates in a rapidly changing business, economic and regulated environment, and new risk factors emerge from time to time. The risks described below are not the only ones the Company faces as additional risks not currently known or identified by the Company, or because the Company believed those risks being immaterial may also significantly impair its business operations.

Limited Revenue History and a History of Previous Losses

Since its inception in June 1998, TSO_3 has not yet generated significant revenues from the sale of its products except in the second half of 2011 and the first half of 2012. Until now, the Company has spent its resources in order to develop new products, submit and, in certain jurisdictions, obtain marketing clearances and conduct limited commercial activities. Additional investments in research and development are required to continue the development and to support the application for clearance in the United States of new products based on the Company's's technology. It is unknown whether any of TSO_3's future 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 not within the control of the Company, and this may create difficulties or delays in operations or marketing efforts undertaken by TSO_3 as well as potential difficulties in achieving manufacturing and purchasing efficiencies.

Lack of revenue and the need for continued spending to support research and development and submissions to regulatory authorities has resulted in the accumulation of sizable losses since the Company was founded.

Regulatory Approvals

Sterilizers 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 the 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 new generation 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 has obtained clearance in the US for the STERIZONE® VP4 Sterilizer in December 2014, a market which size importance in terms of practice is unequaled in the rest of the world. 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.

Indeed, 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.

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

Healthcare Legislation

The Company operates in a highly regulated industry and new laws, judicial decisions, or new interpretations of existing laws, or decisions, related to healthcare could negatively impact its business, operations and financial condition. Governments of local and foreign jurisdictions have in the past considered, are currently considering and may in the future consider, healthcare policies and proposals intended to curb rising healthcare costs. Future significant changes in the healthcare systems in Canada, 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.

Marketing and Distribution Challenges

Worldwide distribution of the Company's products critically depends on its channel partners, and the conditions of distribution agreements with such channel partners. Until June 15, 2012, TSO_3 had an agreement with the Infection Prevention Division of the 3M Company for the marketing, sale, distribution and service of its STERIZONE® 125L+ Sterilizer. On June 15, 2012, the Company terminated its distribution agreement with the 3M Company. Since then, negotiations towards a worldwide distribution agreement have taken place with potential distributors, including with Getinge Infection Control, a division of the Getinge AB, but no final agreement has been reached.

There is no guarantee that the right conditions will be reached for a global worldwide exclusive distribution agreement with a potential partner, nor for any regional or non exclusive sale agency agreement with any such potential partner. Moreover, there can be no assurance that any agreement with these third parties will be beneficial to the Company.

To the extent that the Company relies on third parties to market and distribute its products, the commercial success of such products may become somewhat beyond the Company's control.

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, the Company must maintain and extend ongoing studies in this respect.

Intellectual Property and Technologies

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.

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. Losing a key employee could have a material adverse impact on TSO_3. The Board of Directors, Human Resources Committee and Management have reviewed in 2014 the Company's succession plan for all senior level management positions.

Management of Business Growth

Achieving its short-term objectives could launch the Company into a phase of significant and rapid growth and force it to considerably increase its personnel, the number of partners, production capacity, and financing requirements.

Competition Risks

The Company's products face intense competition. Most of the Company's competitors have greater financial resources and marketing capabilities than TSO_3 and, assuming that the Company succeeds in getting a new channel partner, several of the competitors may also have greater resources and capabilities that a new channel partner may make available to the commercial venture. 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 TSO_3's products or processes obsolete. The high level of competition in the sterilization industry could force the Company to reduce the price at which it sells its 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. To address the problems associated with such lawsuits, the Company is maintaining insurance coverage that it considers adequate and that it reviews annually with its insurance advisors.

Need for Additional Capital and Liquidity

The Company faces a number of challenges in its business, including the fact that it had limited commercial activities while it awaited market clearance in the United States, the largest potential market for its products, and that it still has one major product under development. This creates liquidity needs that must be funded through various rounds of investment capital. In order to reduce those cash requirements, the Company reduced its workforce during Q1-2014 and discontinued most product development efforts other than those related to the US regulatory clearance of its STERIZONE® VP4 Sterilizer then under review by the US Regulatory Authorities.

The ability by the Company to raise cash in order to maintain sufficient cash reserves to ensure continuation of activities may be adversely impacted by global political and economic conditions and by other risk factors identified in this MD&A. There can be no assurance that the Company will continue to be able to obtain on a timely basis sufficient funds to provide adequate liquidity and to finance the operating and capital expenditures necessary to overcome challenges and support its business strategy while its cash flows from operations are insufficient to support its operations. The Company anticipates that it will continue to have negative cash flow until such time, if at all, that profitable commercialization of its STERIZONE® 125L+ and STERIZONE® VP4 Sterilizers is achieved. To the extent that the Company has negative cash flow from operations in future periods, it may need to allocate a portion of its working capital to fund such negative cash flow.

Failure to obtain additional funds, 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 the Company, 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.

Potential Dilution

Prior to the offering closed on March 5, 2015, the Company had outstanding options to purchase 3,769,535 common shares of the Company and no outstanding warrants to purchase common shares of the Company. Following the completion of the offering, there are 9,660,000 additional warrants issued and outstanding. The potential increase in the number of outstanding common shares as a result of the exercise of options and warrants, and the sale of these shares, may have a depressive effect on the future price of the common shares of the Company. In addition, as a result of the exercise of options and warrants, the voting power of the Company's existing shareholders will be diluted. The Company may also issue additional options, common share purchase warrants or additional common shares from time to time in the future in order to fund its capital needs, if any. If it does so, the current ownership interest of the Company's then current shareholders could also be diluted.

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 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 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 as a result of foreign currency conversion adjustments. 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.

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.

At December 31, 2014, if interest rates on that date had been 0.5% lower or higher, and all other variables held constant, there would be no impact on the net loss and comprehensive loss.

At December 31, 2013, if interest rates on that date had been 0.5% lower, and all other variables held constant, the net loss and comprehensive loss for the year would have been $3,332, 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 net loss and comprehensive loss for the year would have been $3,312, 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 has 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.

Receivables from clients are from government-funded hospitals. By their nature, the credit risk related to those receivables is reduced.

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, 2013, 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. As at December 31, 2014, the Company had no short-term investments.

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, 2014 and 2013, 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, under both normal and exceptional circumstances.

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, 2014, if the Canadian dollar had weakened 10 percent against the US dollar with all other variables held constant, the net loss and comprehensive loss for the year would have been $5,954 lower ($17,731 for the year ended December 31, 2013). Conversely, if the Canadian dollar had strengthened 10 percent against the US dollar with all other variables held constant, the net loss and comprehensive loss for the year would have been $5,954 higher ($17,731 for the year ended December 31, 2013).

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, 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.

Warrants not Listed for Trading

Because the Company did not apply to list on the TSX or on any other any securities exchange, there is no public market for the warrants isued by the Company on March 5, 2015. There can be no assurance that a secondary market for the warrants will develop or be sustained if such development occurs. Even if a market develops for the warrants, there can be no assurance that it will be liquid and that the price of the warrants will be the same as the price allocated for the warrants when offered to the investors.

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 Authorities, the Company has filed certificates signed by the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO") that, among other things, report on the design of disclosure controls and procedures (DC&P) and the design of internal control over financial reporting (ICFR).

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

Also, the CEO and the CFO have designed ICFR, or have caused it to be designed under their supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of interim financial statements for financial reporting purposes in accordance with IFRS.

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

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

Based on this evaluation and using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) on Internal Control – Integrated Framework and in connection with the preparation of its financial report and management's discussion and analysis, the two certifying officers consider the design of DC&P and ICFR to be adequate for the Company's reporting for the year ended December 31, 2014.

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 fiscal year ended December 31, 2014 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 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. It contains 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 results of operations within reasonable limits of materiality. The financial information presented elsewhere in this annual report is consistent with the information contained in the financial statements.

In order to carry out its responsibilities with regard to the 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 financial statements.

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

- Review the 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 financial statements. The independent auditor fulfills its responsibility by carrying out an independent audit of these financial statements in accordance with Canadian generally accepted auditing standards.

The Management, Discussion and Analysis has been prepared as at March 17, 2015. 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.tso3.com

On behalf of Management,

Richard M. Rumble
President and CEO

Benoît Deschamps
Vice President Finance and CFO

March 17, 2015

Financial Statements – December 31, 2014 and 2013

Independent Auditor's Report

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To the shareholders of
TSO_3 inc.

We have audited the accompanying financial statements of TSO_3 inc., which comprise the statements of financial position as at December 31, 2014 and 2013 and the statements of loss and comprehensive loss, the statements of changes in equity and the 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 financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these 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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements present fairly, in all material respects, the financial position of TSO_3 inc. as at December 31, 2014 and 2013, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

/s/Deloitte LLP [1]

March 17, 2015

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[1] CPA auditor, CA, public accountancy permit No. A107622

Statements of Loss and Comprehensive Loss

Years ended December 31, 2014 and 2013 (in Canadian $)

	NOTES	2014 $	2013 $
Sales	20	**432,987**	254,370
Expenses	6		
Supply Chain		**1,118,498**	1,064,957
Customer Service and Communications		**301,763**	524,817
Research and Development		**2,333,113**	3,502,505
Administrative		**2,720,249**	2,721,811
Settlement Cost	4	**-**	1,864,127
Financial Income	5	**(113,488)**	(183,687)
Financial Costs	5	**20,841**	30,009
Total Expenses		**6,380,976**	9,524,539
Net Loss before Income Taxes		**(5,947,989)**	(9,270,169)
Income Taxes	18	**-**	-
Net Loss and Comprehensive Loss		**(5,947,989)**	(9,270,169)
Basic and Diluted Net Loss per Share	21	**(0.08)**	(0.13)

The accompanying notes are an integral part of these Financial Statements.

Statements of Changes in Equity

Years ended December 31, 2014 and 2013 (in Canadian $)

	Notes	SHARE CAPITAL $	RESERVE-SHARE-BASED COMPEN-SATION $	RESERVE – WARRANTS $	DEFICIT $	TOTAL $
Restated Balance at January 1, 2013	11	97,774,718	3,814,972	393,300	(83,927,145)	18,055,845
Issuance of Share Capital	12	7,000,000	-	-	-	7,000,000
Options exercised	12	100,922	(32,160)	-	-	68,762
Transfer to Deficit – Warrants Expired	14	-	-	(393,300)	393,300	-
Share-Based Compensation	13	-	184,875	-	-	184,875
Compensation to Underwriters	12,14	(77,000)	-	77,000	-	-
Share Issue Expenses	12	(769,691)	-	-	-	(769,691)
Net Loss for the Year		-	-	-	(9,270,169)	(9,270,169)
Restated Balance at December 31, 2013		104,028,949	3,967,687	77,000	(92,804,014)	15,269,622
Balance at January 1, 2014		104,028,949	3,967,687	77,000	(92,804,014)	15,269,622
Share-Based Compensation	13	-	171,645	-	-	171,645
Options exercised	12	75,525	(33,525)	-	-	42,000
Warrants exercised	12,14	394,975	-	(71,225)	-	323,750
Transfer to Deficit – Warrants Expired	14	-	-	(5,775)	5,775	-
Net Loss for the Year		-	-	-	(5,947,989)	(5,947,989)
Balance at December 31, 2014		104,499,449	4,105,807	-	(98,746,228)	9,859,028

The accompanying notes are an integral part of these Financial Statements.

Statements of Financial Position

As at December 31, 2014 and 2013 (in Canadian $)

	Notes	2014 $	Restated (Note 11) 2013 $
Current Assets			
Cash and Cash Equivalents	7	**5,973,446**	6,637,408
Short-term Investments	7	**-**	2,971,123
Accounts Receivable	8	**257,694**	1,165,666
Inventories	9	**1,293,503**	1,407,411
Prepaid Expenses		**102,294**	53,914
		7,626,937	12,235,522
Non-current Assets			
Property, Plant and Equipment	10	**557,515**	1,048,099
Intangible Assets	11	**2,432,653**	2,656,091
		2,990,168	3,704,190
		10,617,105	15,939,712
Current Liabilities			
Accounts Payable and Accrued Liabilities		**676,058**	578,185
Deferred Revenues		**82,019**	91,905
		758,077	670,090
Equity			
Share Capital	12	**104,499,449**	104,028,949
Reserve – Share-based Compensation	13	**4,105,807**	3,967,687
Reserve – Warrants	14	**-**	77,000
Deficit		**(98,746,228)**	(92,804,014)
		9,859,028	15,269,622
		10,617,105	15,939,712

The accompanying notes are an integral part of these Financial Statements.

Approved by the Board

Director

Director

Statements of Cash Flows

Years ended December 31, 2014 and 2013 (in Canadian $)

	NOTES	2014 $	2013 $
Cash Flows from Operating Activities			
Net Loss before Income Taxes		**(5,947,989)**	(9,270,169)
Adjustments for:			
Depreciation of Property, Plant and Equipment	10	**422,192**	486,255
Amortization of Intangible Assets	11	**240,521**	305,399
Write-off of Property, Plant and Equipment	10	**91,888**	3,436
Write-off of Intangible Assets	11	**160,227**	-
Share-Based Compensation	13	**171,645**	184,875
Financial Income	5	**(113,488)**	(183,687)
		(4,975,004)	(8,473,891)
Changes in Non-Cash Operating Working Capital Items	16	**1,061,487**	(707,220)
Interest Received		**122,813**	192,669
Cash Flows Used in Operating Activities		**(3,790,704)**	(8,988,442)
Cash Flows from Investing Activities			
Acquisition of Short-term Investments		**(4,503,044)**	(9,026,369)
Disposal of Short-term Investments		**7,464,842**	11,095,351
Acquisition of Property, Plant and Equipment	10	**(23,496)**	(201,381)
Acquisition of Intangible Assets	11	**(177,310)**	(298,925)
Cash Flows Generated by Investing Activities		**2,760,992**	1,568,676
Cash Flows from Financing Activities			
Issuance of Share Capital	12	**-**	7,000,000
Payment for Share Issue Expenses	12	**-**	(769,691)
Options Exercised	12	**42,000**	68,762
Warrants Exercised	14	**323,750**	-
Cash Flows Generated by Financing Activities		**365,750**	6,299,071
Decrease in Cash and Cash Equivalents		**(663,962)**	(1,120,695)
Cash and Cash Equivalents at the Beginning		**6,637,408**	7,758,103
Cash and Cash Equivalents at the End		**5,973,446**	6,637,408

Additionnal information is presented in Note 16.

The accompanying notes are an integral part of these Financial Statements.

Notes to the Financial Statements

Years ended December 31, 2014 and 2013 (In Canadian $)

1. Description of Business

TSO_3 ("the Company") exists under the Business Corporations Act (Québec). Its activities encompass the sale, production, maintenance, research, development and licensing of sterilization processes, related consumable supplies and accessories for heat-sensitive medical devices. The Company designs products for sterile processing areas in the hospital environment that offer an advantageous replacement solution to other low temperature sterilization processes currently used in hospitals. It 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.

2. Accounting Policies

Statement of Compliance

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

Standards adopted

In May 2013, the International Accounting Standards Board ("IASB") published amendments to IAS 36: Recoverable Amount Disclosures for Non-Financial Assets. These amendments to IAS 36 Impairment of Assets propose adding additional disclosure about the recoverable amount of impaired assets if that amount is based on the fair value less costs of disposal, and also clarify the IASB's intention concerning disclosure on this recoverable value following the application of IFRS13 - Fair Value Measurement. The Company has adopted this amendment in January 1, 2014. Since the Company has not assessed the recoverable amount of impaired assets based on fair value less costs of disposal, this amendment has no impact on its financial reporting.

Basis of Presentation

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

The principal accounting policies are set out hereafter.

Notes to the Financial Statements

Years ended December 31, 2014 and 2013 (In Canadian $)

2. Accounting Policies (cont'd)

Presentation Currency and Foreign Currency Translation

The financial statements are presented in Canadian dollars, which is the functional currency of the Company.

Foreign currency transactions are translated into Canadian dollars as follows: monetary assets and liabilities are translated at the exchange rates in effect at the statement of financial position 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.

Revenue Recognition

Sales

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

Financial Income

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

Share-Based Compensation

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

Notes to the Financial Statements

Years ended December 31, 2014 and 2013 (In Canadian $)

2. Accounting Policies (cont'd)

Income Taxes

The Company follows the liability method of accounting for income taxes. Under this method, deferred income taxes are recognized based on the expected future tax consequences of differences between the carrying amount of financial position items and their corresponding tax basis, using the enacted and substantively enacted income tax rates for the years in which the differences are expected to reverse. Deferred income tax assets are recognized in net income only if their materialization is considered probable.

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:

Notes to the Financial Statements

Years ended December 31, 2014 and 2013 (In Canadian $)

2. Accounting Policies (cont'd)

Property, Plant and Equipment (cont'd)

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

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

Intangible Assets

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

Acquired in a Business Combination	
Technology	20 years
Acquired Externally	
Patents	20 years
License	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.

Notes to the Financial Statements

Years ended December 31, 2014 and 2013 (In Canadian $)

2. Accounting Policies (cont'd)

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

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

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

As at December 31, 2014, further to its decision to stop supporting its first generation sterilizers using only ozone as a sterilant, the Company performed an impairment test on all assets related to that technology. This led the Company to write-off sterilizers using that technology that had been kept for regulatory and maintenance purposes, as well as all parts inventory exclusively used in connection with these sterilizers. In addition, the Company wrote off certain patents that were related to the discontinued product. Finally, the Company reviewed its parts inventory and wrote-off those parts, other than critical parts, that were discontinued or slow-moving.

Warranty Provision

The Company offers a standard 12-month warranty on capital goods sold to its clients. The estimated cost of the warranty is based on the Company's history with defective sterilization devices and their related spare parts and accessories, the probability that these defects will materialize and their repair costs.

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.

Notes to the Financial Statements

Years ended December 31, 2014 and 2013 (In Canadian $)

2. Accounting Policies (cont'd)

Financial Instruments (cont'd)

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
Short-term 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-term cash commitments. Cash is recorded at amortized cost and cash equivalents are recorded at fair value.

Short-term Investments

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

Accounts Receivables

Accounts receivables 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.

Notes to the Financial Statements

Years ended December 31, 2014 and 2013 (In Canadian $)

2. Accounting Policies (cont'd)

Financial Instruments (cont'd)

Transaction Costs

Transaction costs related to financial assets presented at fair value through profit or loss 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, accounts receivable and accounts payable and accrued liabilities approximates their carrying values due to the short-term maturities of these items.

Critical Accounting Judgments and Key Sources of Estimates Uncertainty

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

1. *Recoverability of Long-Lived Assets:*

   On an annual basis, the Company evaluates if there are indicators of impairment. When such indicators are identified, the Company is required to perform an impairment test in order to measure the recoverable amount of its long-lived assets. The main judgments made by management for the impairment test performed as at December 31, 2014 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.

Notes to the Financial Statements

Years ended December 31, 2014 and 2013 (In Canadian $)

2. Accounting Policies (cont'd)

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

2. *Inventory Valuation:*

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

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

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

4. *Share-Based Compensation:*

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

5. *Deferred Income Taxes:*

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

6. *Settlement Cost:*

The Company initially assessed the value of the inventories returned as part of its settlement with the 3M Company based on a list of items received and on the estimated refurbishment cost of few items received. Once items received, and upon completion of refurbishment expenditures, the Company re-assessed the value of those inventories. The obsolescence and the net realizable value are assessed based on management's experience and knowledge of the current market conditions.

For all these items, relevant accounting policies are discussed in the other parts of Note 2.

Notes to the Financial Statements

Years ended December 31, 2014 and 2013 (In Canadian $)

2. Accounting Policies (cont'd)

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both the current and future periods.

3. Future Accounting Changes

On December 18, 2014, the IASB issued Disclosure Initiative (Amendments to IAS 1) as part of its major initiative to improve presentation and disclosure in financial reports. The amendments to IAS 1 relate to (1) materiality; (2) order of the notes; (3) subtotals; (4) accounting policies; and (v) disaggregation and are designed to further encourage companies to apply professional judgment in determining what information to disclose in their financial statements. For example, the amendments make clear that materiality applies to the whole of financial statements and that the inclusion of immaterial information can inhibit the usefulness of financial disclosures. Furthermore, the amendments clarify that companies should use professional judgment in determining where and in what order information is presented in the financial disclosures. The amendments to IAS 1 are effective for annual periods beginning on or after January 1, 2016. Early adoption is permitted. The Company is currently evaluating the impact of this modification of this standard on its financial statements.

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

The IASB also published IFRS 15 - Revenue from Contracts with Customers, which replaces all the revenue standards and interpretations in IFRS, including IAS 11 - Construction Contracts and IAS 18 - Revenue. The IFRS 15 is effective for annual periods beginning on or after January 1, 2017. Early adoption is permitted for IFRS 15. The Company is currently evaluating the impact of this new standard on its financial statements.

4. Settlement Cost

Until June 15, 2012, the Company had a distribution agreement with the 3M Company. On June 15, 2012, on the basis of a right granted to each party to the agreement, TSO_3 issued to the 3M Company a termination notice. The 3M Company disputed that termination notice. On June 30, 2013, TSO_3 and the 3M Company reached an agreement to settle definitively that dispute about the terminated agreement.

Notes to the Financial Statements

Years ended December 31, 2014 and 2013 (In Canadian $)

4. Settlement Cost (cont'd)

As part of this agreement in 2013, the Company incurred $1,864,127 as settlement costs. This cost is made of a single payment of US$2,000,000 (C$2,110,000) which was partly offset by the return of inventory evaluated at $262,068 at year-end 2013 which were held by the 3M Company (Note 9) and increased by the write-off of certain receivables for an amount of $16,195.

5. Financial Income and Costs

	2014 **$**	2013 $
Financial Income		
Investment Income	**(103,664)**	(183,687)
Other income	**(9,824)**	-
	(113,488)	(183,687)
Financial Costs		
Bank Charges	**23,169**	31,510
Foreign Exchange Gain	**(2,328)**	(1,501)
	20,841	30,009

6. Additional Information on the Statements of Loss and Comprehensive Loss

EXPENSES INCLUDED IN FUNCTIONS	**2014** **$**	2013 $
Salary and Other Benefits	**3,819,465**	4,754,795
Supply Chain		
Customer Service and Communications		
Research and Development		
Administrative		
Depreciation of Property, Plant and Equipment	**422,192**	486,255
Supply Chain		
Customer Service and Communications		
Research and Development		
Administrative		
Amortization of Intangible Assets	**240,521**	305,399
Supply Chain		
Customer Service and Communications		
Research and Development		
Administrative		

Notes to the Financial Statements

Years ended December 31, 2014 and 2013 (In Canadian $)

6. Additional Information on the Statements of Loss and Comprehensive Loss (cont'd)

Severance Payments

During the year 2014, the Company has made severance payments to some of its employees for a total of $60,804 ($15,770 in 2013).

7. Financial Instruments

Cash and Cash Equivalents

	2014 **$**	2013 $
Cash	**2,420,771**	4,638,533
Investments with Maturities of Three Months or Less		
Interest-Bearing Bank Saving Account	**3,552,675**	1,998,875
	5,973,446	6,637,408

Short-term Investments

	2014 **$**	2013 $
Bank Guaranteed Investment Certificates	**-**	2,971,123

Short-term investments held as at December 31, 2013 had a rating of AA- or better and had average yield of 1.47%.

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

No transfer between Level 1 and Level 2 of the fair value hierarchy has been made during the year (No transfer in 2013).

The Company is exposed to various risks, including the risks related to holding financial instruments. To manage the risk related to the use of financial instruments contained in the various investments that make up cash and cash equivalents and short-term investments, 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:

Notes to the Financial Statements

Years ended December 31, 2014 and 2013 (In Canadian $)

7. Financial Instruments (cont'd)

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.

At December 31, 2014, if interest rates on that date had been 0.5% lower or higher, and all other variables held constant, there would be no impact on the net loss and comprehensive loss.

At December 31, 2013, if interest rates on that date had been 0.5% lower, and all other variables held constant, the net loss and comprehensive loss for the year would have been $3,332, 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 net loss and comprehensive loss for the year would have been $3,312, 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.

Receivables from clients are from government-funded hospitals. By their nature, the credit risk related to those receivables is reduced.

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, 2013, 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. As at December 31, 2014, the Company had no short-term investments.

Notes to the Financial Statements

Years ended December 31, 2014 and 2013 (In Canadian $)

7. Financial Instruments (cont'd)

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, 2014 and 2013, 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, under both normal and exceptional circumstances.

Currency Risk

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

For the year ended December 31, 2014, if the Canadian dollar had weakened 10 percent against the US dollar with all other variables held constant, the net loss and comprehensive loss for the year would have been $5,954 lower ($17,731 for the year ended December 31, 2013). Conversely, if the Canadian dollar had strengthened 10 percent against the US dollar with all other variables held constant, the net loss and comprehensive loss for the year would have been $5,954 higher ($17,731 for the year ended December 31, 2013).

8. Accounts Receivable

	2014 **$**	2013 $
Receivables from Clients	**118,549**	92,923
Government Credits Receivable	**139,145**	1,072,743
	257,694	1,165,666

There were no bad debt allowances as at December 31, 2014 nor as at December 31, 2013.

Notes to the Financial Statements

Years ended December 31, 2014 and 2013 (In Canadian $)

9. Inventories

	2014 **$**	2013 $
Raw Materials	**918,993**	1,001,932
Work in Progress	**310,166**	262,053
Finished Goods	**64,344**	143,426
	1,293,503	1,407,411

In connection with the settlement agreement concluded on June 30, 2013, the 3M Company returned to TSO_3 inventories worth $262,068 that it held (Note 4).

Supply Chain expenses include a write-off of raw materials of $170,903 and $18,874 in work-in-progress for the year ended December 31, 2014 (write-off of raw materials of $140,941 for the year ended December 31, 2013).

No inventory was transferred to the Company's Property, Plant and Equipment during year ended December 31, 2014 ($128,015 for sterilizers used internally during the year 2013).

Notes to the Financial Statements

Years ended December 31, 2014 and 2013 (In Canadian $)

10. Property, Plant and Equipment

	OFFICE FURNITURE $	LIFT TRUCK $	EQUIPMENT AND TOOLS $	STERILIZERS USED INTERNALLY $	MARKETING STAND AND DEMONS-TRATION EQUIPMENT $	MEDICAL DEVICES $	COMPUTER EQUIPMENT $	LEASEHOLD IMPROVE-MENTS $	TOTAL $
Cost									
Balance at January 1, 2014	197,975	14,115	1,197,546	1,114,777	3,481	536,421	130,990	193,063	3,388,368
Additions	-	-	1,232	-	-	-	-	22,264	23,496
Write-off	-	-	-	(405,529)[1)]	-	-	-	-	(405,529)
Balance at December 31, 2014	197,975	14,115	1,198,778	709,248	3,481	536,421	130,990	215,327	3,006,335
Accumulated Depreciation									
Balance at January 1, 2014	147,579	14,115	993,425	569,130	348	342,914	79,695	193,063	2,340,269
Depreciation	11,167	-	75,855	194,205	696	102,276	32,427	5,566	422,192
Elimination on Write-off	-	-	-	(313,641)[1)]	-	-	-	-	(313,641)
Balance at December 31, 2014	158,746	14,115	1,069,280	449,694	1,044	445,190	112,122	198,629	2,448,820
Net Carrying Amount at December 31, 2014	39,229	-	129,498	259,554	2,437	91,231	18,868	16,698	557,515

[1)] In 2014, the Company wrote off sterilizers used internally with an original cost of $405,529 in connection with a discontinued product and the dismantling or depreciation of sterilizers used as part of regulatory or compliance activities. The accumulated depreciation of $313,641 is related to the written off assets. The net loss of $91,888 related to this write-off was recorded in the research and development expenses in the Statements of Loss and Comprehensive Loss.

Notes to the Financial Statements

Years ended December 31, 2014 and 2013 (In Canadian $)

10. Property, Plant and Equipment (cont'd)

	OFFICE FURNITURE $	LIFT TRUCK $	EQUIPMENT AND TOOLS $	STERILIZERS USED INTERNALLY $	MARKETING STAND AND DEMONS-TRATION EQUIPMENT $	MEDICAL DEVICES $	COMPUTER EQUIPMENT $	LEASEHOLD IMPROVE-MENTS $	TOTAL $
Cost									
Balance at January 1, 2013	187,121	14,115	1,173,220	986,762	22,735	391,758	594,958	197,788	3,568,457
Additions	10,854	-	27,293	128,015	3,481	144,663	15,090	-	329,396
Write-off	-	-	(2,967)[1)]	-	(22,735)[1)]	-	(479,058)[1)]	(4,725)[1)]	(509,485)
Balance at December 31, 2013	197,975	14,115	1,197,546	1,114,777	3,481	536,421	130,990	193,063	3,388,368
Accumulated Depreciation									
Balance at January 1, 2013	135,306	14,115	888,930	361,215	21,392	222,469	519,396	197,240	2,360,063
Depreciation	12,273	-	104,848	207,915	869	120,445	39,357	548	486,255
Elimination on Write-off	-	-	(353)[1)]	-	(21,913)[1)]	-	(479,058)[1)]	(4,725)[1)]	(506,049)
Balance at December 31, 2013	147,579	14,115	993,425	569,130	348	342,914	79,695	193,063	2,340,269
Net Carrying amount at December 31, 2013	50,396	-	204,121	545,647	3,133	193,507	51,295	-	1,048,099

[1)] In 2013, the Company wrote off assets with original cost amounting to $4,725 in leasehold improvements, $2,967 in equipment and tools, $479,058 in computer equipment which were no longer used and $22,735 for a marketing stand which was replaced, and the accumulated depreciation related to those write-offs was eliminated. The net amount of $3,436 related to such write-off was recorded with the administrative expenses in the statements of loss and comprehensive loss.

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Notes to the Financial Statements

Years ended December 31, 2014 and 2013 (In Canadian $)

11. Intangible Assets

	TECHNOLOGY $	PATENTS $	SOFTWARE $	TRADEMARKS $	WEB SITE $	TOTAL $
Cost						
Balance at January 1, 2014	2,984,124	1,167,906	120,370	108,406	54,691	4,435,497
Additions	-	174,368	-	2,942	-	177,310
Write-off	-	(249,613)[1)]	-	-	-	(249,613)
Balance at December 31, 2014	2,984,124	1,092,661	120,370	111,348	54,691	4,363,194
Accumulated Amortization						
Balance at January 1, 2014	1,340,889	244,796	97,803	41,227	54,691	1,779,406
Amortization	149,207	62,755	18,224	10,335	-	240,521
Elimination on Write-off	-	(89,386)[1)]	-	-	-	(89,386)
Balance at December 31, 2014	1,490,096	218,165	116,027	51,562	54,691	1,930,541
Net Carrying Amount at December 31, 2014	1,494,028	874,496	4,343	59,786	-	2,432,653

[1)] In 2014, the Company wrote off patents with an original cost of $ 249,613. These assets were written off as a result of the decision by the Company to discontinue its support of its first generation ozone-only sterilizer and remove that product from its portfolio of active technologies. The accumulated amortization related to this write-off was eliminated. The net amount of $160,227 was incorporated to administrative expenses in the statements of loss and comprehensive loss.

Notes to the Financial Statements

Years ended December 31, 2014 and 2013 (In Canadian $)

11. Intangibles Assets (cont'd)

	TECHNOLOGY $	PATENTS $	LICENSE $	SOFTWARE $	TRADEMARKS $	WEBSITE $	TOTAL $
Restated Cost							
Balance at January 1, 2013	2,984,124	873,713	991,063	610,876	104,727	54,691	5,619,194
Additions	-	294,193	-	1,053	3,679	-	298,925
Write-off	-	-	(991,063)[2)]	(491,559)[1)]	-	-	(1,482,622)
Balance at December 31, 2013	2,984,124	1,167,906	-	120,370	108,406	54,691	4,435,497
Accumulated Amortization Restated							
Balance at January 1, 2013	1,191,683	193,757	929,120[2)]	556,154	31,224	54,691	2,956,629
Amortization	149,206	51,039	61,943	33,208	10,003	-	305,399
Elimination on Write-off	-	-	(991,063)[2)]	(491,559)[1)]	-	-	(1,482,622)
Balance at December 31, 2013	1,340,889	244,796	-	97,803	41,227	54,691	1,779,406
Net Carrying Amount restated at December 31, 2013	1,643,235	923,110	-	22,567	67,179	-	2,656,091

1) In 2013, the Company wrote off software no longer used with an original cost amounting to $491,559, and eliminated the corresponding accumulated depreciation of that software. There was no net loss related to such write-off.

2) During the fourth quarter 2014, the Company realized that the patent underlying the license expired in 2013. Because the license was amortized over a 16-year period instead of a 9-year period, the 2013 opening balance of accumulated amortization was corrected accordingly. The impact of the modification reduced Intangible Assets and increased Deficit by an amount of $371,648 as at January 1, 2013. Furthermore, the license was written off as at December 31, 2013.

Notes to the Financial Statements

Years ended December 31, 2014 and 2013 (In Canadian $)

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, without par value, 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:

	2014		2013	
Issued and Paid	**Number of Common Shares**	**$**	Number of Common Shares	$
Balance at Beginning	**73,000,906**	**104,028,949**	65,888,182	97,774,718
New Issue	**-**	**-**	7,000,000	6,153,309
Options Exercised	**75,000**	**75,525**	112,724	100,922
Warrants Exercised	**323,750**	**394,975**	-	-
Balance at the End	**73,399,656**	**104,499,449**	73,000,906	104,028,949

On March 4, 2013, the Company issued, by way of prospectus, 7,000,000 common shares with gross proceeds of $7,000,000 and expenses of $846,691 for a net proceed of $6,153,309. The warrants included in those expenses had a fair value of $77,000 (Note 14).

During the year ended December 31, 2014, pursuant to the Company's Stock Option Plan, option holders exercised stock options to subscribe 75,000 shares for a cash consideration of $42,000. During the year ended December 31, 2013, holders exercised 112,724 options for an aggregate cash consideration of $68,762. An amount of $33,525 was transferred from the Reserve – Share-based compensation to share capital ($32,160 in 2013).

During the year ended December 31, 2014, the Company issued 323,750 common shares for a cash consideration of $323,750 in connection with the exercise of warrants.

Notes to the Financial Statements

Years ended December 31, 2014 and 2013 (In Canadian $)

12. Share Capital (cont'd)

Shareholder Rights Plan Agreement

The Board of Directors of TSO_3 has adopted a shareholder rights plan agreement (the "Plan") designed to foster fair treatment of all shareholders in connection with any take-over bid for TSO_3. TSO_3's shareholders ratified the Plan at the annual and special shareholder meeting held on April 25, 2012. The Plan has been designed to give the Board and shareholders more time to fully consider any take-over bid and to provide the Board with more time to pursue, if appropriate, other alternatives to maximize shareholder value. The plan expires, unless its renewal is ratified, at every third annual meeting of shareholders of the Company. Consequently, the plan will either expire or be ratified at the 2015 Annual Meeting.

Under the terms of the Plan, one right (a "Right") has been issued and attached to each voting share (each a "Share") of TSO_3 issued and outstanding as of the opening of business on October 25, 2011. One Right has and will, as the case may be, also be issued and attached to each Share subsequently issued. These Rights would become exercisable only when a person, including any party related to it, acquires or announces its intention to acquire 20% or more of the outstanding Shares of TSO_3 without complying with the "Permitted Bid" provisions of the Plan or, in certain cases, without the approval of the Board. Until such time, the Rights are not separable from the Shares, are not exercisable and no separate rights certificates are issued.

To qualify as a "Permitted Bid" under the Plan, a bid must, among other things: (1) be made to all holders of Shares of TSO_3; (2) provide that the Shares tendered will be taken up or paid for on a closing date which is not less than 60 days from the date of the bid and more than 50% of the Shares, other than those owned by the bidder and any related persons, were tendered and not withdrawn on that date; (3) provide that Shares tendered may be withdrawn by their holder at any time prior to closing; (4) provide that on the date where the Shares could be taken up and paid for, if more than 50% of the Shares held by holders independent from the bidder and any related persons were tendered, the bidder must disclose such fact in an announcement and the bid must remain open for another 10 days.

Following the occurrence of an event which triggers the right to exercise the Rights and subject to the terms and conditions of the Plan, each Right would entitle the holders thereof, other than the acquiring person or any related persons, to exercise their Rights and purchase Shares of TSO_3 at a substantial discount to the market price at that time.

The agreement has no impact on the financial statements.

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.

Notes to the Financial Statements

Years ended December 31, 2014 and 2013 (In Canadian $)

13. Reserve – Share-Based Compensation

The Company's Board of Directors adopted a Share-Based Compensation plan in the form of an option plan designed solely for directors, executives, key employees and service providers of the Company. The plan was approved by the shareholders. The total number of common shares that can be issued under this plan from the Company's share capital was, as at December 31, 2014, 5,187,349 (as at December 31, 2013, 5,262,349). 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, 2014, the Company awarded 637,500 stock options, (110,000 for the year 2013) at a weighted average exercise price of $0.92. The weighted average fair value of these stock options was $0.48.

The Share-Based Compensation expense pertaining to the options awarded is amortized using the graded vesting method and represents a share-based compensation expense of $171,645 for the year ended December 31, 2014 ($184,875 for the year ended December 31, 2013) presented as part of the "Administrative Expenses".

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

	2014	2013
Weighted Average Share Price	**$0.93**	$0.89
Exercise Price	**$0.92**	$0.86
Risk Free Interest Rate	**2.38%**	2.17%
Estimated Share Price Volatility	**46%**	51%
Expected Life	**7 years**	8 years
Expected Dividend Yield	**0%**	0%

The Share-Based Compensation expenses takes into account an estimate of the number of options which will vest and be exercised. In addition, option pricing models such as the Black-Scholes model require highly subjective valuations, including the assumed stock price volatility of the underlying shares. Volatility was estimated for the 2014 and 2013 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.

Notes to the Financial Statements

Years ended December 31, 2014 and 2013 (In Canadian $)

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

	Number	**2014 Weighted Average Exercise Price $**	Number	2013 Weighted Average Exercise Price $
Outstanding at beginning	**3,164,684**	**1.05**	3,714,145	1.13
Granted	**637,500**	**0.92**	110,000	0.86
Exercised	**(75,000)**	**0.56**	(112,724)	0.61
Expired	**(219,935)**	**1.73**	(449,845)	1.55
Forfeited	**(137,714)**	**1.65**	(96,892)	2.00
Outstanding at end	**3,369,535**	**0.97**	3,164,684	1.05
Exercisable at end	**2,552,868**	**0.95**	2,657,917	0.95

The following table summarizes certain information regarding the stock options of the Company as at December 31, 2014:

	OUTSTANDING OPTIONS		**EXERCISABLE OPTIONS**	
Exercise Price	Number	Average Remaining Contractual Life (year)	Number	Average Remaining Contractual Life (year)
$0.37 to $0.94	2,096,000	5.27	1,581,833	3.97
$1.08 to $1.97	1,076,567	6.68	774,067	6.05
$2.20 to $3.45	196,968	1.89	196,968	1.89
	3,369,535	5.52	2,552,868	4.44

Notes to the Financial Statements

Years ended December 31, 2014 and 2013 (In Canadian $)

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

The following table summarizes certain information regarding the stock options of the Company as at December 31, 2013:

	OUTSTANDING OPTIONS		EXERCISABLE OPTIONS	
Exercise Price	Number	Average Remaining Contractual Life (year)	Number	Average Remaining Contractual Life (year)
$0.37 to $0.94	1,730,500	5.14	1,620,500	4.88
$1.08 to $1.97	1,191,460	5.55	794,693	3.60
$2.20 to $3.45	242,724	2.94	242,724	2.94
	3,164,684	5.13	2,657,917	4.32

14. Reserve – Warrants

	Number	**2014 Exercise Price $**	2013 Number	2013 Exercise Price $
Outstanding at Beginning	**350,000**	**1.00**	3,795,000	1.94
Granted	**-**	**-**	350,000	1.00
Exercised	**(323,750)**	**1.00**	-	-
Expired	**(26,250)**	**1.00**	(3,795,000)	1.94
Outstanding at End	**-**	**-**	350,000	1.00
Exercisable at End	**-**	**-**	350,000	1.00

During the first quarter of 2013, 350,000 warrants were issued as part of the compensation to the underwriters in connection with the share issue closed on March 4, 2013. Each of the 350,000 compensation warrants was exercisable to acquire one common share at the exercise price of $1.00 until September 4, 2014. On March 4, 2013, the fair value of each of these compensation warrants was $0.22, for an aggregate value of $77,000. During the third quarter of 2014, 323,750 warrants were exercised and 26,250 warrants expired.

The 3,795,000 warrants issued in 2012 in connection with an equity issue expired in 2013 without being exercised.

Notes to the Financial Statements

Years ended December 31, 2014 and 2013 (In Canadian $)

14. Reserve - Warrants (cont'd)

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

	2014	2013
Weighted Average Share Price	-	$0.99
Exercise Price	-	$1.00
Risk Free Interest Rate	-	1.23%
Estimated Share Price Volatility	-	45%
Expected Life	-	18 months
Expected Dividend Yield	-	0%

At any time when warrants expire without being exercised or are being cancelled, the Company is authorized to transfer to the Deficit the corresponding amount that was included in the Reserve for Warrants. Consequently, upon the expiration of 26,250 warrants on September 4, 2014, the corresponding reserve of $5,775 was transferred to the Deficit. For the year ended December 31, 2013, upon the expiry of 3,795,000 warrants, a transfer of $393,300 was made from the Reserve for warrants to the Deficit.

15. Capital Management

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

Notes to the Financial Statements

Years ended December 31, 2014 and 2013 (In Canadian $)

16. Additional Information Relating to Cash Flows

	2014 $	2013 $
Change in Non-Cash Operating Working Capital Items		
Decrease (Increase) in Current Assets		
Accounts Receivable	**907,972**	(136,401)
Inventories	**113,908**	(190,690)
Prepaid Expenses	**(48,380)**	85,730
Increase (Decrease) in Current Liabilities		
Accounts Payable and Accrued Liabilities	**97,873**	(264,682)
Warranty Provision	**-**	(62,032)
Deferred Revenues	**(9,886)**	(11,130)
	1,061,487	(579,205)
Non-Cash Assets Transferred to R&D (Note 9)		
Non-Cash Items Transferred to Property, Plant and Equipment	-	(128,015)
	1,061,487	(707,220)
Research and Development Tax Credits		
Received	**1,521,102**	122,115

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. Key management comprises the Chief Executive Officer, the Chief Financial Officer, other vice presidents and directors. The remuneration of key management personnel during the year was as follows:

Notes to the Financial Statements

Years ended December 31, 2014 and 2013 (In Canadian $)

17. Related party transactions (cont'd)

	2014 **$**	2013 $
Short-term salaries and other benefits	**962,069**	740,760
Post-employment Benefits	**13,194**	12,359
Share-Based Payments	**4,471**	7,321
Option-Based Awards[(1)]	**99,846**	154,573
	1,097,580	915,013

(1) Option-Based awards reflect the amount of the expenses accounted for during the year for stock-options 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

For tax purposes, the losses from operations incurred during the year can be applied against future taxable income.

As at December 31, 2014, the accumulated tax losses that can be carried forward are as follows:

	LOSS CARRY-FORWARDS	
Expiry Date	**Federal**	**Provincial**
2034	5,796,000	5,650,000
2033	7,899,000	7,550,000
2032	4,933,000	4,612,000
2031	6,185,000	5,795,000
2030	6,594,000	6,327,000
2029	7,569,000	7,122,000
2028	8,052,000	8,040,000
2027	6,224,000	6,822,000
2026	5,481,000	5,820,000
2015	5,009,000	4,961,000
	63,742,000	62,703,000

Notes to the Financial Statements

Years ended December 31, 2014 and 2013 (In Canadian $)

18. Income Taxes (cont'd)

As at December 31, 2014, based on an effective rate of 15% for federal taxes (15% in 2013) and 11.9% for provincial taxes (11.9% in 2013), the undiscounted value of tax losses carried forward is $17,023,000 ($16,717,000 in 2013).

As at December 31, 2014, in addition to these tax losses carried forward, the Company has unclaimed research and development expenses of $12,857,000 at the federal level ($12,717,000 in 2013) and $19,664,000 at the provincial level ($19,388,000 in 2013) and $906,000 in financing costs ($1,565,000 in 2013) that can be carried forward to reduce future taxable income. The unrealized tax benefit related to these items is estimated at $4,513,000 ($4,636,000 in 2013).

With respect to property, plant and equipment, the Company has a deferred income tax related to the tax cost that is higher than the carrying amount of these capital assets. The unrecorded eventual tax benefit related to that difference is evaluated at $1,065,000 ($860,000 in 2013).

In addition, as of December 31, 2014, the Company has $3,519,000 ($3,476,000 in 2013) in additional tax credits representing the outstanding and unrecorded portion of the federal research and development tax credit receivable.

The Company also has no capital loss balance creating deferred income tax assets ($19,000 in 2013).

Furthermore, the cost of intangible assets for tax purposes was $564,000 ($564,000 in 2013) [carrying amount of $1,494,000 ($1,643,000 in 2013)] resulting from the Company taking advantage of provisions in the federal and provincial income tax laws with respect to rollovers. Deferred income taxes liability of $154,000 ($184,000 in 2013) resulting from the difference between the carrying value and the tax value of intangible assets has been recorded. As well, a deferred income taxes asset of the same amount has been recorded relating to the item previously presented.

The deferred income tax assets related to such losses and non-refundable investment tax credits will not be recognized in the financial statements until the Company is able to conclude that these unrecorded tax assets are probable to be materialized by shielding profits from taxes or otherwise. If the Company had concluded on December 31, 2014 that these items would likely be materialized, based on an effective rate of 15% for federal taxes (15% in 2013) and 11.9% for provincial taxes (11.9% in 2013), it would have recorded an aggregate net amount of $25,020,000 in tax assets ($24,588,000 as at December 31, 2013) and a corresponding increase in earnings and shareholders' equity.

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 2014 totaled $412,318 ($1,632,000 in 2013). Of these costs for research and development, no amount to December 31, 2014 is related to fixed assets ($164,000 in 2013).

Notes to the Financial Statements

Years ended December 31, 2014 and 2013 (In Canadian $)

19. Research and Development Tax Credits (cont'd)

The Company also qualifies for tax credits refundable scientific research, $137,000 at as December 31, 2014 ($500,000 in 2013).

The tax credits claimed for the fiscal year ended December 31, 2014 have not been reviewed by the tax authorities. Consequently, the amount of tax credits that will be awarded could differ from the ones already recorded.

20. Segmented Information

The Company is structured as a single operating segment. Almost all property, plant and equipment of the Company are located in Canada.

Sales are allocated between geographic areas based on the location of the client and are as follows for years ended December 31, 2013 and 2014:

	2014		2013	
	$	**%**	$	%
Canada	**351,783**	**81**	212,047	83
Rest of the world	**81,204**	**19**	42,323	17
	432,987	**100**	254,370	100

21. Loss per Share

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

	2014	2013
	$	$
Net Loss		
Basic and Diluted	**(5,947,989)**	(9,270,169)
Number of Shares		
Weighted Average Number of Outstanding Shares	**73,123,794**	71,739,270
Loss per Share		
Basic	**(0.08)**	(0.13)
Diluted [1]	**(0.08)**	(0.13)

1) The weighted average number of outstanding shares is the same number used in the calculation of the diluted net loss per share since the inclusion of common shares resulting from the potential exercise of options and warrants is antidilutive in the calculation of the diluted loss per share. If the Company had a positive profit, the weighted average number of outstanding shares would have been increased by 2,542,467 in 2014 (1,640,500 in 2013) for the calculation of the diluted net loss per share.

Notes to the Financial Statements

Years ended December 31, 2014 and 2013 (In Canadian $)

22. Contractual Commitments

As at December 31, 2014, the contractual commitments in the fiscal years to come are as follows:

	2015 $	2016 $	2017 $	2018 $	2019 $
Operating Leases and Services Contracts	140,000	9,000	8,000	1,000	-

23. Subsequent Event

On March 5, 2015, the Company has closed an equity issue consisting of 9,200,000 units in the capital of the Company at the price of $1.25 per unit for aggregate gross proceeds of $11,500,000.

Each unit was comprised of one common share and one common share purchase warrant ("Warrant") entitling the holder thereof to acquire one common share at a price of $1.875 at any time prior to March 5, 2017. The warrants are 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 is equal or larger than $2.00 for any 10 consecutive trading days.

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 enables its holder to purchase one common share of the Company at the price of $1.25 until March 5, 2016. Net cash proceeds from the issue were estimated at $10,445,000 after payment of the underwriters' commission and expenses of $250,000.

If the equity issue had been done on January 1, 2014, the average number of shares outstanding during 2014 would have been 82,323,794 and the fully diluted loss per share would have been $0.07. The fully diluted number of shares did not incorporate the compensation warrants as their effect would have been antidilutive.

24. Approval of Financial Statements

The Audited Financial Statements were approved by the Board of Directors on March 17, 2015.

Directors

Germain Carrière [1) 2) 3) 4)]

Chairman of the Board of Directors
Corporate Director

Pierre Désy [1) 2) 4)]

Corporate Director

James Husman [2) 3) 4)]

Corporate Director

Jean Lamarre [2) 3) 4)]

President, Lamarre Consultants
Corporate Director

W. Barry McDonald [1) 4)]

Consultant and Corporate Director

Claude Michaud [1) 3) 4)]

Corporate Director

Richard M. Rumble [4)]

President and Chief Executive Officer, TSO_3

1) Member of the Audit Committee
2) Member of the Human Resources
3) Member of the Corporate Governance Committee
4) Member of the Advisory Committee

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INTELLECTUAL PROPERTY SOLICITORS
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Ticker Symbol: TOS Listing: TXS www.tso3.com

Annual Shareholders' Meeting

Wednesday, May 6, 2015 at 10:30 am
McCord Museum, theater J. Armand Bombardier
690 Sherbrooke Street West
Montréal (Québec) H3A 1E9

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