2016 ANNUAL REPORT

Table of Contents

Message from the Chairman of the Board

Dear valued Shareholders,

As Chairman of the Board of TSO_3, I am pleased to report that the Company demonstrated solid performance during fiscal year 2016. The business has performed well and we achieved and in some cases even exceeded our annual objectives.

Over the course of the year, our Board, in conjunction with management, has undertaken a number of initiatives as we adjust to our larger business footprint and expanded opportunities. The Board has been active in continuous improvement of our governance and control practices, strategic planning and corporate communications in order to assure that we meet both the requirements of compliance with applicable laws and also standards for transparency.

The Board also established early in the year that it would be in the Company's best interest to enhance the Board's skillsets and diversity – and consequently were involved in discussions with a number of potential candidates. This activity led to the recommendation and subsequent selection of two new Board Members offering additional experiences and skills in pertinent areas. We are delighted to welcome Dr. Linda Rosenstock and Mr. Jeffrey Pompeo to our Board. We are looking forward to their contribution.

Equally so, members of the Human Resources Committee and others worked hand in hand with management to vet the number of qualified candidates for executive positions opened and filled during the year. Also this year, further to our expansion in the United States and in order to remain competitive and to attract qualified individuals in the positions of executives and directors, the Board, together with the Human Resources Committee, have reviewed the compositions of our peer group and benchmark our executives' and directors' compensation level and compensation mix. We are pleased with the team that has come together, and look forward to the rewards of these investments.

Additionally, we convened a Strategic Committee to complete with management a thorough review of the industry and the many components that make the health care sterilization market so attractive for our technology. This process allowed us to assess what opportunities are available and guide us on how we should allocate our resources on the basis of sound business judgement.

As we look ahead, the Board is enthusiastic about the Company's vision of the future and our role providing governance and oversight to management as they march towards their goals. We see the opportunity and the global need for the Company's technology, product and skills, and we look forward to representing the interest of the Company's stakeholders.

Germain Carrière

Message from the President and Chief Executive Officer

Dear Shareholders,

What a great year.

Fiscal 2016 represented TSO_3's largest move forward in our 18 year history. We grew revenue to over $13 million in the year, sold a record 110 STERIZONE® VP4 Sterilizers, made significant strides in production flow, supply chain and productive capacity, witnessed sustained deliveries of our technology through our channel partner, Getinge Infection Control, established strong strategic ties with leading academic healthcare institutions, reinforced our management team, and once again made history with our unique industry changing regulatory clearances. I think we can safely say we are off to a solid start.

During fiscal 2016, our exclusive distribution arrangement with Getinge resulted in shipments of 110 STERIZONE® VP4 Sterilizers, some of which were installed into US hospitals in the year and others of which are targeted for 2017. This performance provided us an important entry point into the end market, an endorsement of our technology by an industry leader, and a source of operating cash flow to support our internal marketing, development and production improvement efforts. Critically, it also provided a vehicle to demonstrate our solid value propositions and established clear understanding of how to sell new technology into the healthcare market. To top off the year, in November, Getinge provided TSO_3 with a purchase order for STERIZONE® VP4 Sterilizers scheduled for delivery in 2017.

These orders and delivery visibility provided us with an opportunity to learn how to produce our sterilizers in volume and at reasonable cost. With these stable and predictable orders, we were able to transform our assembly facilities from one used to support small orders and research needs, to one that has the ability to produce hundreds of high quality sterilizers each year. In addition, by the end of the year we had added warehouse capacity and facilities in Myrtle Beach, and we target production of our proprietary Hydrogen Peroxide consumable solution in the United States in 2017. Our suppliers are on board. Our assembly personnel are well trained. Our systems are well defined.

In July 2016, the Company announced that the US Food and Drug Administration had cleared TSO_3's expanded indications for use (IFU's) of the STERIZONE® VP4 Sterilizer, which demonstrated the truly superior capabilities of our STERIZONE® Sterilization System. We are now the only company with a validated technology that is cleared for sale in the United States, Europe and Canada for the terminal sterilization of multi-channel flexible endoscopes, such as gastroscopes and video-colonoscopes, up to 3.5 meters in length and with four or fewer channels. Many patients do not realize that these devices are currently not terminally sterilized between patient use; and a growing body of industry research indicates that current device reprocessing procedures involving incumbent technologies need improvement. These extended claims further expanded our technology leadership – offering enhanced patient protection in applications where terminal sterilization was not previously possible, and providing us the potential to revolutionize the medical industry's standard of care.

Meanwhile, TSO_3 remains committed to further expansion of our US claims – including filing for sterilization claims specifically addressing duodenoscopes. TSO_3 is already cleared for the sterilization of these devices in Canada and Europe. These specific devices have repeatedly been implicated in patient to patient cross contamination of multi drug resistant organisms. Such contamination has led to illness and in some cases patient death.

As I write this letter, TSO_3 has completed all testing required to support the use of our sterilization process with selected duodenoscopes. The Company believes it has an opportunity to file a targeted instrument claim together with specific endoscope manufacturers (OEM), which when completed would be a significant opportunity for both parties. This OEM has suggested requirements for their portion of a filing, and TSO_3 expects to be involved in this testing. We feel confident that, should we pursue such a collaborative submission, it will be more valued by end users and will pass through the regulatory process in a shorter time – potentially more than making up for any additional time for the OEM testing to be completed. I assure you that we are working with numerous OEM's on many fronts

and on many instruments, but given the highly visible nature of communications on duodenoscopes, TSO_3 has and will continue to be cautious, making sure that our science is firmly out-front of our communications. This is just one of a number of initiatives we are working on in the rapidly evolving gastrointestinal endoscopy reprocessing market segment.

This means that we will continue to drive change with existing industry partners in both traditional low temperature sterilization markets and the gastrointestinal endoscope reprocessing market. With this in mind, we founded a Strategic Partnership Program with different leading medical institutions in the United States. Working with these institutions, we look forward to bringing published independent third party evaluation and study of our technology in real hospital settings. In support of all of this activity, we completed the construction of our Myrtle Beach facility during 2016 – which now boasts a fully equipped laboratory. We can now offer instrument compatibility services to OEM's and medical facilities, as well as a training facility for end users both clinicians and engineers.

During the year we enhanced our training systems and delivered a number of training events to members of our channel partner's team and prepared to extend this training to location outside the US in the first quarter of 2017, which at this time I can safely say is firmly on tract.

Finally, this past year we built a strong executive team with experience in all key components of our business - a team that is expected to deliver more in operations, science, and in opening new and substantial markets. Each team member is clear on his or her objectives, and we are driving forward in a focused manner in 2017, and in preparation for 2018.

I would like to thank the Board of Directors for their support and guidance, our employees for their dedication and you our committed shareholders for your patience and encouragement.

R.M. (Ric) Rumble

Overview

General Description

TSO_3 Inc. was founded in June 1998 in Québec City, Canada and employs 66 people as at December 31, 2016. The Company's activities encompass the sale, production, maintenance, research, development and licensing of sterilization processes, related consumable supplies and accessories for medical devices that are sensitive to heat and moisture. The Company designs products for sterile processing areas in medical facilities that offer an advantageous replacement solution to other low temperature sterilization and high level disinfection processes currently used. TSO_3 also offers services related to the maintenance of sterilization equipment and compatibility testing of medical devices with such processes.

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

Technology

TSO_3's principal product is the STERIZONE® VP4 Sterilizer. The STERIZONE® VP4 Sterilizer is a dual sterilant, low temperature sterilization system that utilizes vaporized hydrogen peroxide (H_2O_2) and ozone (O_3) as its sterilants. It is a product which evolved from the Company's STERIZONE® 125L+ Sterilizer, which was originally licensed by Health Canada in 2009, CE marked in 2010 and of which the Company subsequently sold a number of units in Canada. These initial units have been in continuous operation for a number of years.

In December 2014, TSO_3 achieved a major milestone when its STERIZONE® VP4 Sterilizer received 510(k) clearance from the Food and Drug Administration (FDA). In October 2015, the STERIZONE® VP4 Sterilizer received clearance from Health Canada (Canadian equivalent of the United States FDA) to sell the STERIZONE® VP4 Sterilizer with extended claims associated with multi-channel flexible endoscopes in the Canadian market and on July 4, 2016, TSO_3 announced that the FDA had also cleared TSO_3's expanded indications for use (IFU's) of its STERIZONE® VP4 Sterilizer relating to certain multi-channel flexible endoscopes of up to 3.5 meters in length and four or fewer channels.

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

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

- First and only dual-sterilant sterilizer cleared by the FDA for sale in the US;
- First single cycle, low-temperature sterilizer cleared in the US, Europe and Canada to process a 75-pound load of general instruments, single channel flexible endoscopes, and rigid and semi-rigid channeled devices;

- First low temperature sterilizer validated and cleared in the US, Europe and Canada to sterilize multi-channeled endoscopes (with four or fewer channels) up to 3.5 metres in length such as video colonoscopes and gastroscopes, along with duodenoscopes in Europe and Canada;
- First low-temperature sterilizer with a load-sensitive *Dynamic Sterilant Delivery System*™;
- First documented "wet" cycle with validated micro-condensation sterilant layer;
- First Biological Indicator Test Pack to survive past the first half-cycle.

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

TSO_3's technologies also allow an industry first in terminal medical device sterilization: medical facilities now have an opportunity to terminally sterilize complex medical instruments such as colonoscopes, gastroscopes and other multi-channel flexible scopes, which previously could only be treated in a less effective process known as "high-level disinfection". Low temperature sterilization with the STERIZONE® VP4 Sterilizer offers a more effective solution than disinfection, since it involves a proprietary physical and chemical process that destroys all types of microbiological organisms, including bacterial spores.

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

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

Business Environment and the Market Drivers

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

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

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

Why Low Temperature Sterile Reprocessing

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

Today's surgical suite is very different from operating rooms of the past. Currently, the trend continues towards the practice of MIS. Devices used in MIS are complex, expensive and delicate, and in most cases, do not tolerate the steam sterilization process. Instead, they require low-temperature sterilization. These high-demands, complex devices represent a major financial investment for hospitals as well as a challenge to sterilize.

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

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 Getinge AB, STERIS Corporation, Johnson & Johnson, 3M Company, Cantel Medical Inc., Olympus Corporation, Custom Ultrasonics Inc., and Belimed AG.

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

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

Each of these sterilization methods offers benefits to the customers, but none is a complete solution matching the customer need for high and cost effective throughput of complex and expensive medical devices. Customers must purchase and support a combination of products to meet their daily requirements for sterile instruments. TSO_3 technology brings its customers closer to a complete solution, and the extended claims cleared by the FDA demonstrate the truly superior capabilities of the STERIZONE® Sterilization System.

2016 Annual Review

Regulatory Status

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

On July 4, 2016, TSO_3 announced that the FDA had also cleared TSO_3's expanded IFU's of its STERIZONE® VP4 Sterilizer relating to certain multi-channel flexible endoscopes of up to 3.5 meters in length and four or fewer channels. Regulatory clearance of the additional claims represents an entirely new level of patient protection against ineffective device reprocessing resulting from the use of less robust disinfecting systems, particularly for flexible endoscopes. These extended claims further expand the Company technology leadership – offering enhanced patient protection in applications where terminal sterilization was not previously possible.

The expanded claims now cleared for the STERIZONE® VP4 Sterilizer correspond to increasing scrutiny by regulatory authorities over medical device reprocessing, particularly for colonoscopes and other complex medical devices used during MIS procedures. Disinfection is significantly less effective than sterilization because it does not necessarily kill all harmful microorganisms, especially bacterial spores. Low temperature terminal sterilization with the STERIZONE® VP4 Sterilizer offers a more effective solution, since it involves a proprietary physical and chemical process that thoroughly destroys all types of microbiological organisms with a sterility assurance level of 10^{-6} (SAL^{-6}). Further, the evidence TSO_3 has provided to the FDA confirms that the STERIZONE® VP4 Sterilizer can terminally sterilize multi-channeled flexible endoscopes (with a maximum of four channels) having internal lumens of ≥ 1.45 mm in inner diameter and ≤ 3,500 mm in overall length, and ≥ 1.2 mm in inner diameter and ≤ 1,955 mm in overall length, which are commonly found in video colonoscopes and gastroscopes - an industry first for any medical device sterilization process.

Commercial Activities

On November 25, 2015, TSO_3 and Getinge Infection Control AB ("Getinge"), a global leader in infection control solutions, entered into an agreement ("the Getinge Agreement") which granted Getinge exclusive global distributor rights to TSO_3's STERIZONE® VP4 Sterilizer in exchange for $7.5 million plus performance minimums.

In association with the Getinge Agreement, TSO_3 received initial purchase orders from Getinge in December 2015, and shipped 110 associated STERIZONE® VP4 Sterilizers and related accessories throughout 2016. These shipments supplied Getinge with sterilizers for sale to end users, and allowed the Company to establish higher volume production, production capacities,purchasing methodologies and supply chain structures. Throughout the year, the Company produced and shipped these 110 units, achieved cost reductions and found opportunities for additional cost improvements. In December 2016, TSO_3 announced that it had received a purchase order for a significant number of STERIZONE® VP4 Sterilizers in 2017 – again providing the Company a degree of operational and supply chain predictability for 2017.

The performance requirements of Getinge Agreement are multi-year and based on a formula for minimum unit shipments, with minimum annual commitments reaching in excess of 10% of the estimated annual global replacement market by the end of the first five years of the agreement. Sales under the Getinge Agreement are made in US dollars to Getinge, who will be the Company only customer for the STERIZONE® VP4 Sterilizer while the Getinge Agreement is in force. Getinge will also receive ongoing technical support from TSO_3 as part of the Getinge Agreement.

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

Strategic Partnership Program

During 2016, TSO_3 also signed with a number of leading healthcare institutions under its Strategic Partnership Program - a program where healthcare institutions work with TSO_3 to study the impact of the Company's industry changing technology on traditional sterilization practices and the processes to enable the routine terminal sterilization of multi-channel flexible endoscopes. Contracts have been signed with the Mount Sinai Hospital of New York, the Highland Hospital of Rochester, NY which is part of UR Medicine (the University of Rochester's clinical enterprise) and the Medical University of South Carolina. TSO_3 will continue to work toward adding key healthcare leaders to this important program to help improve existing sterilization practices to reduce infections and improve patient safety.

Functional Currency

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

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

Supply Chain Financing

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

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

European Expansion

In 2016, in support of a planned European product launch in the first quarter of 2017, TSO_3 completed development of a double door or "pass-through" option for the STERIZONE® VP4 Sterilizer. Pass-through systems are highly desirable in certain sterilization department designs where a wall separates dirty from clean and clean from sterile inventory – an approach favoured by many European hospitals. While the double door option is less popular in the US, the Company plans to pursue clearance to sell the device in the US in the ordinary course.

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

Intellectual Property

Considering the time and investment required to develop new products and obtain marketing authorization, the Company places considerable importance on protecting its research findings, trade secrets and technologies. As of December 31, 2016, TSO_3 had 99 global patents or patent applications pending, with 47 relating specifically to the Company's STERIZONE® VP4 Sterilizer and related technology. TSO_3 relies on a combination of patents, laws, trade secrets, non-disclosure agreements and various contractual arrangements to protect its exclusive technology. Despite the effort, nothing can guarantee that TSO_3's protective measures are enforceable or sufficient to prevent illicit appropriation of its technology or development of the same or similar technology by a third party.

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

During the first quarter of 2013, and in 2015, TSO_3 filed a number of divisional patent applications in all of the countries mentioned above to protect most of individual innovative concepts disclosed in the original application. Several patents on technology embedded in the STERIZONE® Sterilization System have now been granted while the other applications are still pending.

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

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

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

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

Also in 2016:

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

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

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

Subsequent Event

In February 2017, Dr. Linda Rosenstock and Mr. Jeffrey Pompeo joined TSO_3's board of directors. Dr. Rosenstock is a well-recognized physician executive in academia and government, with broad experience in clinical care, health care delivery, population health, research and health and regulatory policy. She is Dean Emeritus, UCLA Fielding School of Public Health and is currently Professor of Health Policy and Management, Environmental Health Sciences and Medicine at UCLA. Dr. Rosenstock is the former Director of the National Institute for Occupational Safety and Health (NIOSH) and serves on a number of publicly traded and private corporate and non-profit boards of directors in the medical field. She received her M.D. and M.P.H. from The Johns Hopkins University and is a recipient of the Presidential Distinguished Executive Rank Award, the highest executive service award in the US Government.

Mr. Pompeo brings over 25 years of experience in high-growth medical device and technology companies. He has lead several technology-driven businesses from inception through commercialization, and is well versed in strategic planning, business development, operational execution, and regulatory strategies in the United States and globally. Mr. Pompeo is currently President and Chief Executive Officer of CareTaker Medical Corporation, a privately held wireless patient monitoring medical device company headquartered in the United States, and has served in senior executive and board director positions in numerous multinational organizations. He holds a Computer Information Systems degree from James Madison University and an M.B.A. from Virginia Tech's Pamplin College of Business.

These appointments add significant and relevant US medical practice, regulatory and business development skills to the Company independent board.

2017 Focus

In 2017, TSO_3 will continue to focus its resources to help Getinge achieve the performance objectives outlined in the Getinge Agreement. To this end, TSO_3 will conduct training and sales meetings and assist with marketing and sales collateral in support of the deployment of the STERIZONE® VP4 Sterilizers in the traditional low temperature sterilization market in the United States and Europe, and will continue to work collaboratively with Getinge with respect to launching into additional targeted international markets.

Additionally, the Company will expand use of its existing laboratory in Québec and its new laboratory in South Carolina in support of its traditional device compatibility testing, endoscope compatibility testing and new product development. Such efforts will help the Company demonstrate its technology and educate Getinge and hospitals the impact its technologies can have on reprocessing efficiency, effectiveness, throughput and simplicity, as well as endoscope terminal sterilization.

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

The rate of sterilizer deployment into end customers is variable as new technology adoption, equipment replacement and installation cycles in hospitals are difficult to predict. Following the cleared expanded indications for use of its STERIZONE® VP4 Sterilizer and the recent installations of the device in hospitals, the Company expects accelerated sterilizer deployments to come in the coming months.

The Company continues to target a filing with the FDA to include multi-channeled flexible endoscopes containing guide wire mechanisms, such as duodenoscopes, with the anticipation of a 2017 clearance for such devices. TSO_3 also continues to develop new products in the sterile reprocessing market such as the STERIZONE® 80L Sterilizer, a configuration of the STERIZONE® Technology with an 80 litre chamber size.

Management Discussion and Analysis

This management discussion and analysis (MD&A) is intended to help readers assess the consolidated financial position and consolidated financial performance of TSO_3 Inc. ("TSO_3", the "Company") for the twelve-month period ended December 31, 2016 and to compare them with the twelve-month period ended December 31, 2015. This information is dated March 20, 2017 and should be read in conjunction with the Annual Audited Consolidated Financial Statements and the accompanying notes. Unless specified otherwise, all amounts are stated in US dollars.

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

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

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

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

Forward Looking Statements

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

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

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

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

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

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

Summary of Results

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

	2016	Restated 2015
	$	$
Revenues	**13,301**	1,248
Cost of sales	**9,188**	1,578
Gross profit	**4,113**	(330)
Expenses		
Research and development	**3,512**	2,181
Selling, general and administrative	**6,529**	3,946
Financial expenses (income)	**(1,658)**	(121)
Total Expenses	**8,383**	6,006
Net loss before income taxes	**(4,270)**	(6,336)
Income taxes	**109**	-
Net loss	**(4,379)**	(6,336)
Other comprehensive income (loss) item that will not be reclassified subsequently to net income		
Translation adjustments	**-**	(1,712)
Total comprehensive loss	**(4,379)**	(8,048)
Weighted average number of outstanding shares (in thousands)	**90,810**	81,264
Basic and diluted net loss per share (in $)	**(0.05)**	(0.08)
Basic and diluted net comprehensive loss per share (in $)	**(0.05)**	(0.10)

Results Analysis

Below, the Company discusses the variations of certain accounts for the periods ending December 31, 2016 and 2015.

Effective January 1, 2016, TSO_3 changed its functional and reporting currency from Canadian dollars to US dollars as the significant majority of its current and future revenues are and are expected to be denominated in US dollars.

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

REVENUES

For the year 2016, revenues equalled $13.3 million, as compared to $1.2 million in 2015. TSO_3 shipped 110 STERIZONE® VP4 Sterilizers to Getinge in 2016, as well as associated accessories and consumables, and recognized $0.6 million of Getinge licensing revenue. The year 2015 included sales of eight units of the STERIZONE® VP4 Sterilizer to Getinge, which were the first sales of that device in the United States.

On December 2, 2016, the Company announced initial purchase orders received from Getinge USA, Inc., for fiscal year 2017. The orders were received in association with the distribution agreement signed with Getinge in November 2015.

NET INCOME (NET LOSS)

In the fiscal year of 2016, net loss and comprehensive loss totaled $4.4 million or $0.05 per share, as compared to $6.3 million or $0.08 per share of net loss and $8.0 million or $0.10 per share of comprehensive loss in 2015.

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

For the year 2016, the Company incurred no material events which would have impacted its comprehensive gain or loss.

Supplemental Non-IFRS Financial Measures

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

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

In 2016, management began assessing its operational performance using supplemental non-IFRS statement of income which removes typically one-time unusual items that do not reflect the recurring and ongoing operational results and trends. The results of the associated adjustments in 2016 included the removal of a one-time expense associated with a commitment to purchase of raw materials made in the year but made obsolete by improvements in installation alternatives in response to feedback from end customers, which resulted in the calculation of adjusted gross profit, adjusted EBITDA and adjusted net income.

IFRS AND NON-IFRS COMPARISON

$000's	Quarterly 2016								Full Year 2016		
	Q1 IFRS	Adjust-ments[1]	Q1 Non-IFRS	Q2 IFRS	Q3 IFRS	Q4 IFRS	Adjust-ments[1]	Q4 Non-IFRS	IFRS	Adjust-ments	Non-IFRS
Revenues	3,071	-	3,071	2,977	3,507	3,746	-	3,746	13,301	-	13,301
Cost of Goods Sold	1,961	-	1,961	2,143	2,368	2,716	(312)	2,404	9,188	(312)	8,876
Gross Profit	1,110	-	1,110	834	1,139	1,030	(312)	1,341	4,113	(312)	4,424
Gross Margin	36%	-	36%	28%	32%	28%	(8%)	36%	31%	(2%)	33%
R&D	606	-	606	803	806	1,297	-	1,297	3,512	-	3,512
SGA	1,385	-	1,385	1,529	1,841	1,774	-	1,774	6,529	-	6,529
Financial	(1,588)	1,578	(10)	-	(50)	(21)	-	(21)	(1,658)	1,578	(80)
Net Income (loss) before tax	707	(1,578)	(871)	(1,499)	(1,458)	(2,020)	(312)	(1,708)	(4,270)	1,266	(5,536)
Tax	58	-	58	(12)	15	48	-	48	109	-	109
Net Income (loss)	649	(1,578)	(929)	(1,487)	(1,473)	(2,068)	(312)	(1,756)	(4,379)	1,266	(5,645)
Net Income (loss) per share	0.01	(0.02)	(0.01)	(0.02)	(0.02)	(0.02)	0.00	(0.02)	(0.05)	(0.01)	(0.06)
Adjusted Ebitda	1,000	(1,578)	(578)	(1,128)	(977)	(1,614)	(312)	(1,302)	(2,719)	1,266	(3,985)

[1] Refer to the Non-IFRS financial measures.

Non-IFRS cost of good sold, non-IFRS gross profit and non-IFRS gross margin in Q4-2016 was impacted by a one-time write-off of inventory of $0.3 million associated with a commitment to purchase of raw materials made in the year, but made obsolete by improvements in installation alternatives in response to feedback from end customers. The Company plans to sell these materials in 2017, but the amount of potential recovery could not be estimated at the end of 2016.

Non-IFRS financial income in Q1-2016 was impacted by the one-time foreign exchange gain realized of $1.6 million following the change in functional currency from Canadian dollars to US dollars.

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

EXPENSES

Foreign Exchange Impact

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

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

In the year 2016, total expenses denominated in Canadian dollars were CAD$15.0 million, as compared CAD$9.2 million in the same period in 2015. The average USD/CAD foreign exchange rate in 2016 was 0.7550 as compared to 0.7821 in 2015, which is reflected in a decrease in expenses of more than 3% year over year upon conversion to USD.

From a quarterly sequential perspective, the USD/CAD foreign exchange rate in the fourth quarter of 2016 was 0.7494 as compared to 0.7665 in the third quarter of 2016, which is reflected in a decrease in expenses of 2% quarter over quarter upon conversion to USD.

Cost of sales

Cost of sales include all expenses incurred in connection with production costs, related quality control and assurance expenses, cost of services sold to end-users, shipping expenses, supply chain activities as well as layout improvements.

For the fiscal year ended December 31, 2016, cost of sales equaled $9.2 million, as compared to $1.6 million in 2015. TSO_3's cost of sales in 2016 would have been $8.9 million excluding a one-time expense recorded in the fourth quarter of 2016 of $0.3 million associated with a commitment to purchase of raw materials made in the year, but made obsolete by improvements in installation alternatives in response to feedback from end customers. The Company plans to sell these materials in 2017, but the amount of potential recovery could not be estimated at the end of 2016. In the first and second quarters of 2016, TSO_3 shipped 25 STERIZONE® VP4 Sterilizers and shipped 30 sterilizers in each of the third and fourth quarters of 2016, for a total of 110 shipped sterilizers in 2016. TSO_3 shipped eight sterilizers in 2015.

Gross profit was $4.1 million, or 31% of revenue in 2016 as compared to -26% of revenue in 2015. This increase in gross profit margin in 2016 resulted from higher revenues associated with shipments of STERIZONE® VP4 Sterilizers, higher gross margin accessories and consumables, along with license fees revenue recognition. Excluding the one-time raw-material expense recorded in the fourth quarter of 2016, gross-profit in fiscal year 2016 would have been $4.4 million, or 33% of revenue, an improvement of 1% as compared to the 32% in gross profit for the nine-month period ended September 30, 2016.

The Company experienced growth in revenues associated with accessories, consumables, services, and license fees over the course of 2016. These products typically have higher gross margins than the STERIZONE® VP4 Sterilizers, and therefore contributed modestly to the Company's non-IFRS gross margins improvement in 2016 relative to 2015 and on a sequential quarterly basis over the last three quarters of 2016.

Research and development

For the fiscal year ended December 31, 2016, research and development expenses were $3.5 million, as compared to $2.2 million for the same period in 2015. During 2016, TSO_3 increased material purchases, salary and equipment maintenance to work on projects such as the double door unit, extended claims and endoscope compatibility studies as well as other medical device compatibility studies for its STERIZONE® VP4 Sterilizer.

Selling, General and Administrative (SG&A)

Selling, general and administrative (SG&A) includes marketing, sales and service and administrative expenses. SG&A expenses were $6.5 million in 2016, as compared to $3.9 million for the the same period in 2015.

During the fiscal year ended December 31, 2016, the Company incurred additional recruiting, salary, share based compensation, and professional fees associated with operations, administration, commercialization, marketing and strategic consultants as well as costs associated with training and supporting Getinge personnel in both the Canadian and US markets. Most of these additional costs were born in the United States in US currency, consistent with TSO_3's growing US presence and business opportunities.

Share-based compensation expense

For the year ended December 31, 2016, intangible and share-based compensation amortization amounted to $1.1 million, as compared to $0.5 million for the same period in 2015.

As at December 31, 2016, the Company had 7.0 million stock options oustanding, as compared to 5.0 million stock options outstanding at the same date in 2015. Share-based compensation

amortization grew as the Company issued more stock options to new and existing employees, and the Black-Scholes value of each option was higher as a result of a higher underlying stock price at the time of grant.

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

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

Financial expenses (income)

For the fiscal year ended December 31, 2016, financial income was at $1.7 million, as compared to $0.1 million in 2015.

Following the change in functional currency from Canadian dollars to US dollars, the Company converted substantially all its cash, cash equivalent and short-term investments previously held in Canadian dollars into US dollars. The foreign exchange gain realized following this conversion was $1.6 million in the first quarter of 2016 and was recorded in net income.

Financial Position Analysis

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

	2016	Restated 2015
	$	$
Cash, cash equivalents and investments (short and long term)	**19,260**	15,111
Accounts receivable	**2,318**	437
Inventories	**1,703**	1,302
Property, plant and equipment	**2,357**	366
Intangibles assets	**1,836**	1,691
Accounts payable, accrued liabilities and deferred income tax liabilities	**2,381**	1,288
Warranty provision	**575**	29
Deferred revenues (short and long term)	**6,949**	7,536
Equity	**17,671**	10,133

Liquid Assets

As at December 31, 2016, cash, cash equivalents and investments amounted to $19.3 million, as compared to $15.1 million as at December 31, 2015. The Company received $10.1 million in total cash proceeds from the exercise of 7.7 million warrants and recorded a cash gain of $1.6 million from the translation of Canadian dollars into US dollars in the first quarter of 2016.

In 2016, the Company used approximately $4.5 million in cash in operations ($5.4 million in 2015), when excluding the one-time $1.6 million foreign exchange translation gain recorded in the first quarter of 2016. In 2016, the Company also used approximately $2.6 million in cash used to fund non-cash working capital to support the Company's growing business as compared to a generation of $7.9 million in 2015, the majority of which related to the $7.5 million in license revenue received from Getinge in the fourth quarter of 2015.

During 2016, the Company invested $1.4 million in capital expenditures on property, plant, equipment and intangible assets as TSO_3 expanded its patent portfolio and laboratory and other facilities in Québec and the United States, and the Company capitalized $1.2 million of STERIZONE® VP4 Sterilizers as property plant and equipment and deployed within the Company for marketing and laboratory purposes. This compares to $0.5 million in 2015.

Accounts Receivable

As at December 31, 2016, the accounts receivable amounted to $2.3 million, as compared to $0.4 million as at December 31, 2015. As at December 31, 2016, receivables were from Getinge and government for tax credits. As at December 31, 2015, receivables were largely made up of amounts recoverable from government tax credits. The increase in 2016 reflects the growth in sales of the STERIZONE® VP4 Sterilizer to Getinge.

Inventories

As at December 31, 2016, inventories amounted to $1.7 million, as compared to $1.3 million as at December 31, 2015.

	2016 **$**	Restated 2015 $
Raw Materials	**1,023**	700
Work in Progress	**137**	273
Finished Goods	**543**	329
	1,703	1,302

In 2016, the Company grew its inventories to support the growth of sales of STERIZONE® VP4 Sterilizers. The inventory as at December 31, 2016 grew in order to build supply of parts for product to be delivered in 2017.

Property, Plant and Equipment

Property, plant and equipment increased from $0.4 million as at December 31, 2015 to $2.4 million as at December 31, 2016. During the period, TSO_3 invested a total of $2.3 million in property, plant and equipment. Of this amount, $1.2 million was invested in sterilizers and $0.3 million in medical devices in the Company's laboratories in Canada and the United States to perform testing related to product compatibility and extended claims of the STERIZONE® VP4 Sterilizer as well as part of product development; $0.2 million in leasehold improvement to complete the laboratory in Myrtle Beach and $0.5 million in equipments and tools to improve the Company's production rate and product development.

Intangible Assets

For fiscal year 2016, the amount of intangible assets increased from $1.7 million at the end of 2015 to $1.8 million as at December 31, 2016. The Company invested $0.3 million in patents which was partially offset by amortization over the period.

Accounts Payable, Accrued Liabilities and Deferred Income Tax Liabilities

As at December 31, 2016, accounts payable, accrued liabilities and deferred income tax liabilities amounted to $2.4 million, as compared to $1.3 million as at December 31, 2015. The increase is primarily due to the higher purchasing, production and shipment volumes related to STERIZONE® VP4 Sterilizers at the end of 2016, and the growth of the Company's operations in the United States. As at December 31, 2016, the Company recorded $0.1 million as deferred income tax liabilities (none as at December 31, 2015).

Deferred Revenues

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

As at December 31, 2016, the Company recorded $0.6 million of license revenue, which is recorded as revenue as services are rendered and products are delivered over the term of the Getinge Agreement.

Shareholders' Equity

As at December 31, 2016, Shareholders' Equity amounted to $17.7 million, as compared to $10.1 million as at December 31, 2015. The variation is primarily the result of the net proceeds of $10.1 million from warrants exercised in the first quarter of 2016 in connection with the equity issue closed by the Company on March 5, 2015 and the absorption of the operating deficits incurred during the twelve-month period of 2016.

As at December 31, 2016, the number of outstanding shares was 91,977,214 (83,324,789 as at December 31, 2015). The variation is also primarily the result of the warrants exercised in the first quarter of 2016.

Cash Flows Analysis

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

	2016 **$**	Restated 2015 $
Operating Activities	**(5,390)**	2,578
Investing Activities	**(15,430)**	(3,108)
Financing Activities	**10,864**	9,155
Effect of exchange rates on cash and cash equivalents	**-**	(1,120)

Operating Activities

Cash used by the operating activities amounted to $5.4 million for the fiscal year 2016, as compared to $2.6 million generated in 2015. In 2016, the Company used approximately $2.6 million in cash ($7.8 million in 2015) to fund working capital adjustments to support the growing business, and consumed $2.9 million in net loss, after adjusting for non-cash items and inclusive of a $1.6 million foreign exchange translation gain from the translation of Canadian dollars into US dollars recorded in the first quarter of 2016 ($5.4 million in 2015). Operating cash consumption in 2016 included $1.2 million of STERIZONE® Sterilizers capitalized as property plant and equipment and deployed within the Company for marketing and laboratory purposes.

Investing Activities

For the fiscal year ended December 31, 2016, investing activities consumed $15.4 million, as compared to $3.1 million in 2015; an increase resulting from the net purchase of $14.0 million in short-term investments and $1.4 million in property plant and equipment and intangible assets in 2016, as compared to $2.7 million and $0.5 million respectively in the same period last year. Investing activities in 2016 excluded $1.2 million of STERIZONE® Sterilizers capitalized as property plant and equipment and deployed within the Company for marketing and laboratory purposes. This use of cash was reflected in Operating Activities.

Financing Activities

For the fiscal year ended December 31, 2016, financing activities generated $10.9 million as compared to $9.2 million in 2015. Both periods were impacted by the equity issue closed on March 5, 2015. In the first quarter of 2016, the Company received $10.1 million from warrant exercises for warrants originally issued in Q1-2015, while in the first quarter of 2015 it received a net amount of $8.2 million from the initial share issuance. For the year ended December 31, 2016, $0.7 million was generated from options exercised as compared to $0.04 million for the same period in 2015.

Summary of Quarterly Results

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

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

				2016			Restated 2015	
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenues	**3,746**	3,507	2,977	3,071	151	914	111	72
Net income (loss)	**(2,068)**	(1,473)	(1,487)	649	(2,160)	(1,295)	(1,423)	(1,458)
Net income (loss) per Share (basic and diluted, in $)	**(0.02)**	(0.02)	(0.02)	0.01	(0.03)	(0.02)	(0.02)	(0.02)

Fourth Quarter Analysis

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

Three-month period ended December 31, 2016, compared to the three-month period ended December 31, 2015:

	Fourth Quarter 2016 $	Fourth Quarter Restated 2015 $
Revenues	**3,746**	151
Cost of sales	**2,716**	484
Gross profit	**1,030**	(333)
Expenses		
Research and development	**1,297**	674
Selling, general and administrative	**1,774**	1,210
Financial expenses (income)	**(21)**	(57)
Total Expenses	**3,050**	1,827
Net loss before income taxes	**(2,020)**	(2,160)
Income taxes	**48**	-
Net loss	**(2,068)**	(2,160)
Other comprehensive income (loss) item that Will not be reclassified subsequently to net income		
Translation adjustments	**-**	(379)
Total comprehensive loss	**(2,068)**	(2,539)
Weighted average number of outstanding shares (in thousands)	**90,810**	81,263
Basic and diluted net loss per share (in $)	**(0.02)**	(0.03)
Basic and diluted net comprehensive loss per share (in $)	**(0.02)**	(0.03)

SALES

For the three-month period ended December 31, 2016, total revenues amounted to $3.7 million, as compared to $0.2 million for the same period in 2015. During the fourth quarter of 2016, the Company shipped 30 STERIZONE® VP4 Sterilizers to Getinge, and recorded revenue from associated accessories, license fees and consumables. TSO_3 did not ship sterilizers in the fourth quarter of 2015.

NET INCOME (NET LOSS)

For the three-month period ended December 31, 2016, the Company recorded a net loss of $2.1 million, or $0.02 per share, as compared to a net loss of $2.2 million, or $0.03 per share for the same period in 2015.

Gross profit contribution from revenues recorded in the fourth quarter of 2016 partially offset higher operating costs that the Company incurred in the fourth quarter of 2016, relative to the fourth quarter of 2015, in association with the expanded commercialization, marketing, laboratory, recruiting and administration efforts to support its growing business.

EXPENSES

Cost of sales

For the three-month period ended December 31, 2016, cost of sales equaled $2.7 million, as compared to $0.5 million for the same period in 2015. Gross profit was $1.0 million, or 28% of revenue in 2016 as compared to a gross loss of $0.3 million in 2015. This increase in the Q4-2016 gross profit margin, as compared to Q4-2015, resulted predominantly from higher revenues associated with shipments of STERIZONE® VP4 Sterilizers, higher margin accessories and consumables, along with license fees revenue recognition. During the fourth quarter of 2016, the Company recorded a one-time expense of $0.3 million associated with a commitment to purchase of raw materials made in the year, but made obsolete by improvements in installation alternatives in response to feedback from end customers. The Company plans to sell these materials in 2017, but the amount of potential recovery was unestimable at the end of 2016. Excluding this one-time write-off, gross-profit would have been $1.3 million, or 36% of revenue in the fourth quarter of 2016, an improvement of 4% as compared to the 32% in the third quarter of 2016.

The Company experienced growth in revenues associated with accessories, consumables, services, and license fees over the course of 2016. These products typically have higher gross profit as a percentage of revenue, or gross margin, than STERIZONE® VP4 Sterilizers, and therefore contributed modestly to the Company's non-IFRS gross margins improvement in 2016 relative to 2015 and on a sequential quarterly basis over the last three quarters of 2016.

Research and development

For the three month-period ended December 31, 2016, research and development expenses amounted to $1.3 million, as compared to expenses of $0.7 million for the same period in 2015. In the fourth quarter of 2016, TSO_3 increased hiring, salary and subcontractor fees to work on new project development, compatibility testing, extended claims and on the ramp-up of the laboratory located in the United States.

Selling, General and Administration (SG&A)

Selling, general and administrative (SG&A) includes commercialization, marketing, sales and service as well as administrative expenses. In the fourth quarter of 2016, SG&A expenses were $1.8 million, as compared to $1.2 million for the the same period in 2015. TSO_3 incurred additional costs associated with payroll, recruiting, marketing and investor relations as well as costs associated with training and supporting Getinge personnel in both the Canadian and US markets.

Cash Flows Analysis

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

	Fourth Quarter	
	2016	Restated 2015
	$	$
Operating Activities	**(1,053)**	6,430
Investing Activities	**(475)**	(919)
Financing Activities	**47**	22
Effect of exchange rates on cash and cash equivalents	**-**	(228)

Operating Activities

Cash used by the operating activities amounted to $1.1 million for the three-month period ended December 31, 2016, as compared to $6.4 million generated during the same period in 2015. The variation between both periods resulted from $7.5 million received in the fourth quarter of 2015 upon signing the exclusive distribution agreement with Getinge.

Investing Activities

For the three-month period ended December 31, 2016, investing activities consumed $0.5 million, as compared to $0.9 million in 2015; a reduction resulting from the net disposal of $0.04 million in short-term investments and $0.5 million from the acquisition in property, plant and equipment and intangible assets in Q4-2016, as compared to a net purchase for $0.7 million and $0.2 million respectively in the same period last year.

Financing Activities

For the three-month period ended December 31, 2016, financing activities generated $0.04 million from options exercised, as compared to $0.02 for the same period in 2015.

Segmented Information

The Company is structured as a single operating segment.

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

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

	Fourth Quarter				Twelve months			
		2016		Restated 2015		**2016**		Restated 2015
In thousands of US$	**$**	**%**	$	%	**$**	**%**	$	%
Canada	**118**	**3**	93	62	**336**	**3**	355	28
United States	**3,628**	**97**	58	38	**12,965**	**97**	893	72
	3,746	**100**	151	100	**13,301**	**100**	1,248	100

For the year 2016, revenue from Getinge represented 98% of the Company's total revenues in conjunction with the Getinge Agreement (71% for the same period in 2015). Shipments to Getinge were made in the United States.

Contractual Commitments

As at December 31, 2016, the contractual commitments in the fiscal years to come are as follows:

In thousands of US$	2017 $	2018 $	2019 $	2020 $	2021 $
Operating leases and service contracts	282	93	90	59	-

Operating leases relate to leases of premises with lease terms of one or five years. The Company does not have an option to purchase the leased premises at the expiry of the lease periods. For the year ended December 31, 2016, lease expenses were $0.2 million ($0.1 million for the year ended December 31, 2015).

Off-Balance Sheet Arrangement

The Company made no off-balance sheet arrangement during the fourth quarter of 2016 other than purchase orders issued in the normal course of business.

Additional Disclosure – Unrecorded Tax Assets

The Company has accumulated a substantial amount of losses, unclaimed expenses and tax credits that could be claimed in the future to reduce income taxes. The related deferred income tax assets will be recorded on the Condensed Consolidated Financial Statements only when the Company concludes that these tax assets will probably be materialized by shielding profits from taxes, or otherwise. If the Company had reached this conclusion on December 31, 2016, $20.0 million in tax assets would have been recorded based on an effective rate of 15% for federal taxes and 11.9% for provincial taxes ($18.9 million as at December 31, 2015).

Capital Resources

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

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

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

Accounting Policies

The reader is refered to notes 2 and 3 of the Company's Annual Audited Consolidated Financial Statements for the year ended December 31, 2016 for a detailed presentation of accounting policies, critical accounting judgments, key source of estimation uncertainty and future accounting changes.

Risk Factors

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

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

Management of Growth

2016 was a pivotal year for TSO_3, as the Company ramped the sales and production volumes to levels it had not experienced in TSO_3's history. The Company underwent and will continue to be subject to many challenges associated with such change, such as the expansion of its production capacity, facilities, quality control systems, dealing with the complexity of growing multinational sales, regulations and operations, hiring new executive team members and attempting to accelerate their integration, sourcing goods and components from existing and new suppliers, hiring professional and subcontractor support, sourcing laboratory materials and equipment, sourcing subassemblies, accessories and consumables associated with the products, dealing with the limited ability of TSO_3's limited number of suppliers, and other third parties on which the Company is dependent to scale with the Company and provide the goods and services the Company needs, import and export regulations and taxes, ability to recruit and retain appropriate personnel, dealing with changes in regulatory environment, accessing appropriate amounts of capital, addressing increased transportation distances, destinations, delivery timelines and lead times, and addressing the expanding impact of hazardous materials considerations on the delivery of some of the products. Some of these challenges were new to the Company and the third parties on whom the Company relies. Additionally, the Company's lack of history in volume sale of its products makes it more difficult for the Company to predict installation costs and timelines, warranty exposures, customer adoption and usage, sales cycles, incentive requirements, and competitive response, among other considerations. While the Company is aware of and has addressed or is addressing many of these challenges, most of these challenges and risks remain and are outside of its control. There is no guarantee that the Company will successfully and smoothly address and forecast these and other challenges in the future. Failure to do so could result in a material adverse impact on the Company's ability to produce and sell its products and therefore could have a material adverse affect on its financial and operating results.

Limited Revenue History and a History of Losses

Fiscal year 2016 representated the first year that TSO_3 generated significant revenues from the sale of its products since its inception in June 1998. Before 2016, it had focused on developing new products, submitting and, in certain jurisdictions, obtaining marketing clearances and conducting limited commercial activities. While the Company has gained valuable experience and has significantly improved its operations, it is still impacted by its short history of sales, production, purchasing, service, commercialization and related operating activity relative to other mature and established companies.

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

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

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

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

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

Regulatory Approvals

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

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

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

Numerous statutes and regulations govern the manufacture and sale of sterilizers for medical use in Canada, the United States and other countries where the Company markets or intends to market its products. Such laws and regulations govern, among other things, the approval of manufacturing facilities, testing procedures and controlled research and the advertising of products. Failure to comply

with statutes and regulations could result in warning letters, fines and other civil penalties, unanticipated expenditures, withdrawal of regulatory approval, delays in approving or refusing to approve modifications to existing products or new products, product recall or seizure, interruption of production, operating restrictions, injunctions or criminal sanctions.

The Company and its contract manufacturers and suppliers are also subject to numerous provincial and local laws relating to such matters as safe working conditions, manufacturing practices, environmental protection, fire hazard control and disposal of hazardous or potentially hazardous substances. The Company and its contract manufacturers and suppliers may be required to incur significant costs to comply with such laws and regulations in the future, and such laws and regulations may have an adverse effect on the Company's business. Failure of the Company or its contract manufacturers and suppliers to comply with current or changes in existing regulatory requirements could materially harm the Company's business. Furthermore, there can be no assurance that the Company's contract manufacturers and suppliers will continue to comply with regulatory requirements. In such circumstances, the Company's business or financial condition may be adversely affected.

Healthcare Legislation

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

Dependence on Commercialization Partners

Worldwide distribution of the Company's products critically depends on its channel partners, and the conditions of distribution agreements with such channel partners. TSO_3 announced in November 2015 the conclusion of a worldwide exclusive distribution agreement with Getinge Infection Control AB for the STERIZONE® VP4 Sterilizer and as such, the Company is highly dependent on Getinge's commitment and success at marketing and distributing the STERIZONE® VP4 Sterilizer.

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

Customer Concentration

TSO_3 has a very concentrated customer base, with Getinge as its exclusive customer for the STERIZONE® VP4 Sterilization System. TSO_3 currently expects sales to Getinge to represent the vast majority of total sales for the next several years. The termination of such agreement or a default by either party for any reason would have a material adverse effect on the Company's business, financial condition or results of operations. TSO_3 sells its sterilizers and proprietary consumables to Getinge, who then commercializes them to end customers. A decline in sales volumes and/or price of products sold to Getinge could have a material adverse effect on the business, financial condition or results of operations of the Company.

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

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

Compatibility with Medical Instruments

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

Intellectual Property

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

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

In order to protect or enforce the intellectual property rights owned, used or commercialized by the Company, the Company may have to initiate legal proceedings against third parties. The Company may also have to defend claims brought against it or any purchaser or user of its products asserting

that such product or process infringes intellectual property rights of third parties. Legal proceedings relating to intellectual property typically are expensive, take significant time and divert management's attention from other business matters. The cost of such litigation could adversely affect the business of the Company. Further, should the Company not prevail in an infringement lawsuit brought against it, the Company may have to pay substantial damages, and could be required to stop the infringing activity or obtain a license to use the patented technology. Such royalty or licensing agreements, if required, may not be available on acceptable terms, if at all. In the event a claim is successful against the Company and the Company cannot obtain a license to the relevant technology on acceptable terms, license a substitute technology or redesign potential products to avoid infringement, the business, financial condition and operating results of the Company could be materially adversely affected. Loss of patent protection could lead to new competition for the Company's current and future products, which could materially and adversely affect the financial prospects for the Company's products.

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

Technologies

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

Dependency on Key Personnel

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

Expansion Risk

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

Competition Risks

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

Product Liability Issues

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

Need for Additional Capital and Liquidity

TSO_3 may decide or need to raise funds in order to fund operations, improve its cash reserves, undertake strategic initiatives or acquisitions or for other corporate purposes. TSO_3 anticipates that it will continue to have negative cash flow until such time, if at all, that profitable commercialization of its STERIZONE® 125L+ and STERIZONE® VP4 Sterilizers is achieved. Such funds may not be available in a timely manner, under commercially favourable terms or at all.

Future financings could represent significant dilution to current shareholders. If convertible securities are included in future financings, such convertible securities could be dilutive to shareholders and be senior in security to common shareholders, and the sale of the underlying shares may have a depressive effect on the future price of the common shares of the Company.

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

Challenging Global Political and Economic Conditions

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

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

public organizations are impacting economic conditions and therefore have consequences on the Company's business prospects.

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

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

International Activities

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

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

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

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

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

Foreign Currency Exchange Rates

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

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

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

Suppliers

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

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

Hazards and Risks

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

Financial Instruments

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

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

Market Risk

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

Interest Rate Risk

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

As December 31, 2016, if interest rates on that date had been 0.5% lower, and all other variables held constant, the consolidated net loss and comprehensive loss for the period would have been $0.05 million lower ($0.02 million for the year ended December 31, 2015), arising mainly as a result of an increase in the fair value of fixed rate financial assets classified at fair value through profit or loss. If the interest rates on that date had been 0.5% higher, all other variables being held constant, the consolidated net loss and comprehensive loss for the period would have been $0.05 million higher ($0.02 million for the year ended December 31, 2015), 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.

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

This program was not used at the end of December 31, 2016.

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, 2016 and 2015, the Company's short-term investments were rated by at least two recognized agencies and were within the credit ratings required by the Company's Investment Policy.

Concentration Risk

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

As at December 31, 2016 and 2015, there was no single investment that exceeded the limit required under the Company's Investment Policy.

Liquidity Risk

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

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

Currency Risk

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

As at December 31, 2016, if the US dollar had weakened 10 percent against the Canadian dollar with all other variables held constant, the net loss and comprehensive loss for the period ended December 31, 2016 would have been $0.05 million lower ($0.04 million for the year ended December 31, 2015). 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 period ended December 31, 2016 would have been $0.05 million higher ($0.04 million for the year ended December 31, 2015).

Fair Value

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

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

Loss of Entire Investment

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

Volatility of Share Price

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

Dividends

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

Other Risk Factors

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

Disclosure and Internal Controls

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

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

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

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

An evaluation of the design of DC&P and ICFR is carried out annually under the supervision of the CEO and the CFO and the results of the last such evaluation were communicated to the Board of Directors as part of the review made in connection with the end of fiscal year 2016. 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 year ended December 31, 2016.

Changes in internal controls over financial reporting

No changes were made to the Company's internal controls over financial reporting that occurred during the quarter and the fiscal year ended December 31, 2016 that have materially affected, or are reasonably likely to materially affect, the internal controls over financial reporting.

Management Report

Responsibility of the Financial Statements

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

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

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

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

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

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

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

The Management, Discussion and Analysis has been prepared as at March 20, 2017. Additional information on the Company is available through regular filing of press releases, annual reports, quarterly financial statements and the Annual Information Form on the SEDAR website www.sedar.com.

On behalf of Management,

Richard M. Rumble
President and Chief Executive Officer

Glen Kayll
Chief Financial Officer

March 20, 2017

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2016 and 2015

Independent Auditor's Report

Deloitte.

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

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

To the shareholders of TSO_3 Inc.,

We have audited the accompanying consolidated financial statements of TSO_3 Inc., which comprise the consolidated statements of financial position as at December 31, 2016 and December 31, 2015 and the consolidated statements of income and comprehensive income (loss), the consolidated statements of changes in equity and the consolidated statements of cash flows for the years then ended and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditor's responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of TSO_3 Inc. as at December 31, 2016 and December 31, 2015, 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 20, 2017

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

Consolidated Statements of Income and Comprehensive Income (Loss)

Years ended December 31, 2016 and 2015 (in thousands of US dollars, except per share amounts)

	Notes	2016 $	Restated (Note 2) 2015 $
Revenues		**13,301**	1,248
Cost of sales		**9,188**	1,578
		4,113	(330)
Expenses			
Research and development		**3,512**	2,181
Selling, general and administrative		**6,529**	3,946
Financial expenses (income)	**4**	**(1,658)**	(121)
Total Expenses		**8,383**	6,006
Net loss before income taxes		**(4,270)**	(6,336)
Income taxes	**18**	**109**	-
Net loss		**(4,379)**	(6,336)
Other comprehensive income (loss) item that Will not be reclassified subsequently to net income			
Translation adjustments		**-**	(1,712)
Total comprehensive loss		**(4,379)**	(8,048)
Basic and diluted net loss per share (in $)	**21**	**(0.05)**	(0.08)
Basic and diluted net comprehensive loss per share (in $)	**21**	**(0.05)**	(0.10)

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

Consolidated Statements of Changes in Equity

(In thousands of US dollars)

		Share Capital $	Reserve-Share-Based Compen-sation $	Reserve – Warrants $	Deficit $	Other comprehen-sive income $	Total $
Restated Balance at January 1, 2015		90,079	3,539	-	(85,119)	-	8,499
Issuance of share capital and warrants	12	8,620	-	488	-	-	9,108
Options exercised	13	66	(25)	-	-	-	41
Warrants exercised	12,14	1,001	-	(32)			969
Compensation warrants issued to underwriters	14	(86)	-	86	-	-	-
Share and warrant issue expenses	12	(863)	-	(49)	-	-	(912)
Share-based compensation	13	-	476	-	-	-	476
Net impact of change in presentation currency		-	-	-	-	(1,712)	(1,712)
Net loss for the period		-	-	-	(6,336)	-	(6,336)
Restated Balance at December 31, 2015		98,817	3,990	493	(91,455)	(1,712)	10,133
Balance at January 1, 2016		98,817	3,990	493	(91,455)	(1,712)	10,133
Options exercised	13	1,103	(384)	-	-	-	719
Warrants exercised	12, 14	10,486	-	(391)	-	-	10,095
Warrants expired	14	-	-	(102)	102	-	-
Share-based compensation	13	-	1,103	-	-	-	1,103
Net loss for the period		-	-	-	(4,379)	-	(4,379)
Balance at December 31, 2016		110,406	4,709	-	(95,732)	(1,712)	17,671

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

Consolidated Statements of Financial Position

As of December 31, 2016 and 2015 (In thousands of US dollars)

	Notes	2016 $	Restated (Note 2) 2015 $
Current Assets			
Cash and Cash Equivalents	6	**2,698**	12,654
Short-term Investments	6	**15,064**	2,457
Accounts Receivable	7	**2,318**	437
Inventories	8	**1,703**	1,302
Prepaid Expenses		**102**	79
		21,885	16,929
Non-current Assets			
Long-term Investments	6	**1,498**	-
Property, Plant and Equipment	9	**2,357**	366
Intangible Assets	10	**1,836**	1,691
		5,691	2,057
		27,576	18,986
Current Liabilities			
Accounts Payable and Accrued Liabilities		**2,272**	1,288
Warranty Provision		**575**	29
Deferred Revenues	11	**1,004**	801
		3,851	2,118
Non-current Liabilities			
Deferred Income Tax Liabilities	18	**109**	-
Deferred Revenues	11	**5,945**	6,735
		9,905	8,853
Equity			
Share Capital	12	**110,406**	98,817
Reserve – Share-based Compensation	13	**4,709**	3,990
Reserve – Warrants	14	**-**	493
Deficit		**(95,732)**	(91,455)
Accumulated Other Comprehensive Loss		**(1,712)**	(1,712)
		17,671	10,133
		27,576	18,986

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

Approved by the Board

Director

Director

Consolidated Statements of Cash Flows

As of December 31, 2016 and 2015 (In thousands of US dollars)

	Notes	2016 $	Restated (Note 2) 2015 $
Cash flows from operating activities			
Net loss		**(4,379)**	(6,336)
Adjustments for:			
Depreciation and amortization		**448**	407
Write-off of intangible assets		**-**	173
Deferred income tax liabilities	18	**109**	-
Share-based compensation	13	**1,103**	476
Investment income	4	**(180)**	(87)
		(2,899)	(5,367)
Changes in non-cash operating working capital items	16	**(2,597)**	7,859
Interest received		**106**	86
Cash flows generated by (used in) operating activities		**(5,390)**	2,578
Cash flows from investing activities			
Acquisition of investments		**(26,195)**	(6,939)
Disposal of short-term investments		**12,164**	4,282
Acquisition of property, plant and equipment	9	**(1,085)**	(192)
Acquisition of intangible assets	10	**(314)**	(259)
Cash flows used in investing activities		**(15,430)**	(3,108)
Cash flows from financing activities			
Issuance of share capital and warrants	12	**-**	9,108
Share capital and warrants issue expenses	12	**-**	(912)
Options exercised	12	**719**	41
Warrants exercised	12, 14	**10,145**	918
Cash flows generated by financing activities		**10,864**	9,155
Effect of exchange rates on cash and cash equivalents		**-**	(1,120)
Increase (decrease) in cash and cash equivalents		**(9,956)**	7,505
Cash and cash equivalents at the beginning		**12,654**	5,149
Cash and cash equivalents at the end		**2,698**	12,654

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

Notes to the Consolidated Financial Statements

Years ended December 31, 2016 and 2015 (In thousands of US dollars, unless otherwise indicated)

1. Description of Business

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

2. Accounting Policies

Statement of Compliance

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

Accounting Policy Adopted

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

Basis of Presentation

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

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

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

Notes to the Consolidated Financial Statements

Years ended December 31, 2016 and 2015 (In thousands of US dollars, unless otherwise indicated)

2. Accounting Policies (cont'd)

Presentation Currency and Foreign Currency Translation

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

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

Scope of Consolidation

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

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

Revenue Recognition

Revenue

The Company generates revenue from the sale of sterilizers, related spare parts and maintenance services, consumable supplies, accessories and compatibility testing services. The Company recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred, the price to the buyer is fixed or determinable and collection is reasonably assured.

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

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

License Revenue

The Company also generates license revenue resulting from an exclusive distribution agreement with Getinge Infection Control. These revenues are recognized as services are rendered and products are delivered over the term of the Getinge Agreement (see Note 11).

Notes to the Consolidated Financial Statements

Years ended December 31, 2016 and 2015 (In thousands of US dollars, unless otherwise indicated)

2. Accounting Policies (cont'd)

Revenue Recognition (cont'd)

Financial Income

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

Share-Based Compensation

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

Deferred Share Unit Plan

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

Income Taxes

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

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

Notes to the Consolidated Financial Statements

Years ended December 31, 2016 and 2015 (In thousands of US dollars, unless otherwise indicated)

2. Accounting Policies (cont'd)

Deferred tax

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

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

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

Government Assistance and Research and Development Tax Credits

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

Inventories

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

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

Notes to the Consolidated Financial Statements

Years ended December 31, 2016 and 2015 (In thousands of US dollars, unless otherwise indicated)

2. Accounting Policies (cont'd)

Property, Plant and Equipment

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

Office Furniture and Lift Truck	10 years
Equipment and Tools	7 years
Sterilizers Used Internally	5 years
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
Licenses	9 years
Software	3 years
Trademarks	10 and 15 years
Web Site	3 years

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

Notes to the Consolidated Financial Statements

Years ended December 31, 2016 and 2015 (In thousands of US dollars, unless otherwise indicated)

2. Accounting Policies (cont'd)

Impairment of Property, Plant and Equipment and Intangible Assets

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

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

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

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

During the year ended December 31, 2016, the Company performed an impairment test and the results allowed the Company to conclude that no impairment loss needs to be recorded.

Warranty Provision

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

Warrants

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

Notes to the Consolidated Financial Statements

Years ended December 31, 2016 and 2015 (In thousands of US dollars, unless otherwise indicated)

2. Accounting Policies (cont'd)

Financial Instruments

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

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

Classification, Recognition and Measurement of Financial Instruments

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

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

Cash and Cash Equivalents

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

Investments

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

Accounts Receivable

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

Accounts payable and Accrued Liabilities

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

Notes to the Consolidated Financial Statements

Years ended December 31, 2016 and 2015 (In thousands of US dollars, unless otherwise indicated)

2. Accounting Policies (cont'd)

Financial Instruments (cont'd)

Transaction Costs

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

Fair Value

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

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

Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at the end of each reporting period. For the Company these elements are represented by cash and receivables. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the investments have been affected. As at December 31, 2016 and December 31, 2015, such event has not occurred and consequently no impairment loss has been taken.

Critical Accounting Judgments and Key Sources of Estimates Uncertainty

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

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, 2016 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 Consolidated Financial Statements

Years ended December 31, 2016 and 2015 (In thousands of US dollars, unless otherwise indicated)

2. Accounting Policies (cont'd)

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

2. *Inventory Valuation:*

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

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

Government assistance and research and development tax credits are recorded in the financial statements under item "Research and Development" when there is reasonable assurance that the Company has complied with, and will continue to comply with, all of the conditions necessary to obtain the assistance. 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 related to the award of stock options has been amortized using the graded vesting method. The options awarded pursuant to the Company's option plan generally vest over a three-year period and may be exercised within a maximum of 10 years of the award date. In evaluating the value of the share-based compensation, the Company uses judgment in assessing critical parameters such as the expected volatility, the risk free interest-rate, as well as the estimated number of options that will vest.

The share-based compensation expense entailed by the award of DSUs has been amortized using the graded vesting method. DSUs awarded pursuant to the Company's plan generally vest 50% at award date and the other 50% vest over a period of one year. DSUs are payable on the termination of service of the participant. In evaluating the value of the DSUs, the Company uses judgment in assessing critical parameter such as the estimated number of DSUs that will vest.

5. *Warrants Valuation:*

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

6. *Deferred Income Taxes:*

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

Notes to the Consolidated Financial Statements

Years ended December 31, 2016 and 2015 (In thousands of US dollars, unless otherwise indicated)

2. Accounting Policies (cont'd)

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

7. *Functional Currency:*

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

8. *Revenue Recognition:*

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

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

9. *Warranty:*

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

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

3. Future Accounting Changes

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

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

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

Notes to the Consolidated Financial Statements

Years ended December 31, 2016 and 2015 (In thousands of US dollars, unless otherwise indicated)

3. Future Accounting Changes (cont'd)

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

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

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

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

The amendments are effective for annual periods beginning on or after January 1, 2018. The Company is currently analyzing the potential effects of adopting this standard on its financial statements.

4. Financial expenses (income)

	2016 **$**	Restated (Note 2) 2015 $
Investment Income	**(180)**	(87)
Bank Charges	**51**	27
Foreign Exchange Gain (Loss)	**(1,529)**	(61)
	(1,658)	(121)

Notes to the Consolidated Financial Statements

Years ended December 31, 2016 and 2015 (In thousands of US dollars, unless otherwise indicated)

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

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

	2016 $	Restated (Note 2) 2015 $
Salary and Other Benefits	**5,697**	4,038
Share-based compensation expense	**1,103**	476
Depreciation of Property, Plant and Equipment	**279**	239
Amortization of Intangible Assets	**169**	168

Severance Expenses

During the year 2016, the Company recorded severance expenses to some of its employees for a total amount of $0.1 million ($0.3 million for the year 2015).

6. Financial Instruments

Cash and Cash Equivalents

	2016 $	Restated (Note 2) 2015 $
Cash	**2,698**	6,291
Investments with Maturities of Three Months or Less		
Bank Guaranteed Investment Certificates	**-**	6,363
	2,698	12,654

Accounts Receivable

	2016 $	Restated (Note 2) 2015 $
Accounts Receivable	**2,318**	437

Accounts Payable and Accrued Liabilities

	2016 $	Restated (Note 2) 2015 $
Accounts Payable and Accrued Liabilities	**2,272**	1,288

Notes to the Consolidated Financial Statements

Years ended December 31, 2016 and 2015 (In thousands of US dollars, unless otherwise indicated)

6. Financial Instruments (cont'd)

Investments

	2016 $	Restated (Note 2) 2015 $
Short-term Investments		
Bank Guaranteed Investment Certificates	**2,015**	2,457
Bonds	**13,049**	-
	15,064	2,457
Long-term Investments		
Bonds	**1,498**	-
	16,562	2,457

Investments were rated A+ or better and had an average yield of 1.28% as at December 31, 2016.

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

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

No transfer between Level 1 and Level 2 of the fair value hierarchy has been made during the year ended December 31, 2016 (no transfer in 2015).

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

Market Risk

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

Interest Rate Risk

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

Notes to the Consolidated Financial Statements

Years ended December 31, 2016 and 2015 (In thousands of US dollars, unless otherwise indicated)

6. Financial Instruments (cont'd)

Interest Rate Risk (cont'd)

As December 31, 2016, if interest rates on that date had been 0.5% lower, and all other variables held constant, the consolidated net loss and comprehensive loss for the period would have been $0.05 million lower ($0.02 million for the year ended December 31, 2015), arising mainly as a result of an increase in the fair value of fixed rate financial assets classified at fair value through profit or loss. If the interest rates on that date had been 0.5% higher, all other variables being held constant, the consolidated net loss and comprehensive loss for the period would have been $0.05 million higher ($0.02 million for the year ended December 31, 2015), arising mainly as a result of a decrease in the fair value of fixed rate financial assets classified at fair value through profit or loss. The net loss and comprehensive loss therefore have substantially the same sensitivity to interest rate increases and interest rate decreases.

Credit Risk

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

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

This program was not used at the end of December 31, 2016.

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, 2016 and 2015, the Company's investments were rated by at least two recognized agencies and were within the credit ratings required by the Company's investment policy.

Concentration Risk

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

As at December 31, 2016 and 2015, there was no single investment that exceeded the limit required under the Company's Investment Policy.

Notes to the Consolidated Financial Statements

Years ended December 31, 2016 and 2015 (In thousands of US dollars, unless otherwise indicated)

6. Financial Instruments (Cont'd)

Liquidity Risk

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

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

Currency Risk

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

As at December 31, 2016, if the US dollar had weakened 10 percent against the Canadian dollar with all other variables held constant, the net loss and comprehensive loss for the year ended December 31, 2016 would have been $0.05 million lower ($0.04 million for the year ended December 31, 2015). 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 ended December 31, 2016 would have been $0.05 million higher ($0.04 million for the year ended December 31, 2015).

7. Accounts Receivable

	2016 **$**	Restated (Note 2) 2015 $
Receivables from Clients	**2,025**	107
Government Credits Receivable	**293**	280
Receivables from warrants exerciced	**-**	50
	2,318	437

There were no bad debt allowances as at December 31, 2016 nor as at December 31, 2015.

8. Inventories

	2016 **$**	Restated (Note 2) 2015 $
Raw Materials	**1,023**	700
Work in Progress	**137**	273
Finished Goods	**543**	329
	1,703	1,302

Cost of sales expenses included a write-off of raw materials of $0.4 million for the year ended December 31, 2016 ($0.1 million for the year ended December 31, 2015).

Notes to the Consolidated Financial Statements

Years ended December 31, 2016 and 2015 (In thousands of US dollars, unless otherwise indicated)

9. Property, Plant and Equipment

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

Restated (Note 2)	Lift Truck, Equipment And Tools $	Sterilizers Used Internally $	Marketing And Admin Furniture And Demons-Tration Equipment $	Medical Devices $	Computer Equipment $	Leasehold Improve-Ments $	Total $
Cost							
Balance at January 1, 2015	1,046	611	174	462	113	186	2,592
Additions	50	-	69	38	53	10	220
Currency translation	(180)	(99)	(39)	(80)	(26)	(29)	(453)
Balance at December 31, 2015	916	512	204	420	140	167	2,359
Accumulated Depreciation							
Balance at January 1, 2015	934	388	138	384	97	171	2,112
Depreciation	37	101	14	58	19	10	239
Currency translation	(154)	(70)	(23)	(66)	(17)	(28)	(358)
Balance at December 31, 2015	817	419	129	376	99	153	1,993
Net Carrying Amount at December 31, 2015	99	93	75	44	41	14	366

Notes to the Consolidated Financial Statements

Years ended December 31, 2016 and 2015 (In thousands of US dollars, unless otherwise indicated)

10. Intangible Assets

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

Restated (Note 2)	Technology $	Patents Licenses Trademarks $	Software Web Site $	Total $
Cost				
Balance at January 1, 2015	2,572	1,038	151	3,761
Additions	-	243	16	259
Write-off[1]	-	(242)	-	(242)
Currency translation	(416)	(173)	(24)	(613)
Balance at December 31, 2015	2,156	866	143	3,165
Accumulated Amortization				
Balance at January 1, 2015	1,284	233	147	1,664
Amortization	117	45	6	168
Elimination on Write-off[1]	-	(81)	-	(81)
Currency translation	(215)	(38)	(24)	(277)
Balance at December 31, 2015	1,186	159	129	1,474
Net Carrying Amount at December 31, 2015	970	707	14	1,691

[1] In March 2015, the Company wrote off patents with an original cost of $0.2 million, and eliminated an amount of $0.1 million in corresponding accumulated amortization. The net write-off amount of $0.2 million is reported as part of the Administrative expenses in the Consolidated Statements of Loss and Comprehensive Loss.

11. Deferred Revenues

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

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

Notes to the Consolidated Financial Statements

Years ended December 31, 2016 and 2015 (In thousands of US dollars, unless otherwise indicated)

11. Deferred Revenues (cont'd)

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

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

12. Share Capital

Authorized:

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

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

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

Issued:

	2016			2015
Issued and Paid	**Number of Common Shares**	**$**	Number of Common Shares	Restated (Note 2)
Balance at Beginning	**83,324,789**	**98,817**	73,399,656	90,079
New Issue	**-**	**-**	9,200,000	7,671
Options Exercised	**969,825**	**1,103**	42,333	66
Warrants Exercised	**7,682,600**	**10,486**	682,800	1,001
Balance at the End	**91,977,214**	**110,406**	83,324,789	98,817

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

Each unit was comprised of one common share and one warrant entitling to acquire one common share at a price of $1.43 (CAD$1.875) at any time prior to March 5, 2017. The warrants were subject to an accelerated expiry if, at any time after September 30, 2015, the published closing trade price of the common shares on the TSX was equal or greater than $1.52 (CAD$2.00) for any 10 consecutive trading days. As at January 5, 2016, the Company announced the acceleration of the expiry date to February 4, 2016 (Note 14).

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

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

Notes to the Consolidated Financial Statements

Years ended December 31, 2016 and 2015 (In thousands of US dollars, unless otherwise indicated)

12. Share Capital (cont'd)

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

During the year 2016, pursuant to the Company's Stock Option Plan, 969,825 stock options have been exercised for an aggregate cash consideration of $0.7 million. During the year ended December 31, 2015, holders exercised 42,333 options for an aggregate cash consideration of $0.04 million.

Employee Stock Purchase Plan

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

Deferred Share Unit Plan

DSUs are awarded in connection with the 2016 Stock Incentive Compensation Plan. Under this plan, each eligible person receives a portion of his or her compensation in the form of DSUs. DSUs awarded pursuant to the Company's plan generally vest 50% at award date and the other 50% vest over a period of one year. DSUs are payable on the termination of service of the participant. The value of a DSU is determined based on the closing price of the Common Shares of TSO_3 for the last trading day. The DSUs are repurchased by TSO_3, and the Company anticipates using common stock when an eligible person ceases to be a plan participant. For the purpose of repurchasing DSUs, the value of a DSU is determined based on the closing price of the Common Shares of TSO_3 for the last trading day prior to the repurchase of the DSUs.

As at December 31, 2016 the number of DSUs awarded amounted to $0.1 million (none as at December 31, 2015). During the year ended December 31, 2016, TSO_3 recorded a compensation expense of $0.9 million (none as at December 31, 2015) for its deferred share unit plan.

13. Reserve – Share-Based Compensation

The Company's Board of Directors adopted the 2016 Stock Incentive Compensation Plan which includes the award of stock options. The plan was approved by the shareholders. The total number of common shares that can be issued under this plan for all forms of award from the Company's share capital was 8.0 million as at December 31, 2016, (8.2 million as at December 31, 2015). The options awarded pursuant to this plan generally vest over a three-year period and may be exercised within a maximum of 10 years from the date of award.

During the year ended December 31, 2016, the Company awarded 3.4 million stock options, (2.0 million for the same period in 2015) at a weighted average exercise price of $1.88 or CAD$2.54 ($1.34 or CAD$1.71 for the same period in 2015). The weighted average fair value of these stock options was $1.17 or CAD$1.57 for the year 2016 ($0.64 or CAD$0.84 for the year in 2015).

Notes to the Consolidated Financial Statements

Years ended December 31, 2016 and 2015 (In thousands of US dollars, unless otherwise indicated)

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

The share-based compensation expense pertaining to the award of options is amortized using the graded vesting method and represents a share-based compensation expense of $1.1 million for the year ended December 31, 2016 ($0.5 million for the same period in 2015) presented in the Consolidated Statements of Income (Loss) in the functions based on the option holders.

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

US$	2016	Restated (Note 2) 2015 $
Weighted Average Share Price	**$1.88**	$1.34
Exercise Price	**$1.88**	$1.34
Risk Free Interest Rate	**1.15%**	1.36%
Estimated Share Price Volatility	**59%**	44%
Expected Life	**8 years**	8 years
Expected Dividend Yield	**0%**	0%

The share-based compensation expenses takes into account an estimate of the number of options and DSUs that will actually vest and be exercised. In addition, option pricing models such as the Black-Scholes model require highly subjective assumptions, including the assumed stock price volatility of the underlying shares. Option's volatility was estimated for the 2016 and 2015 awards on the basis of the historical volatility of the Company's share price prior to the date of award. Any change in the assumptions can materially affect the fair value estimates.

US$	Number	2016 Weighted Average Exercise Price $	Number	Restated (Note 2) 2015 Weighted Average Exercise Price $
Outstanding at beginning	**4,993,568**	**0.89**	3,369,535	0.70
Granted	**3,516,137**	**1.88**	1,971,500	1.24
Exercised	**(969,825)**	**0.74**	(42,333)	0.91
Expired	**(73,203)**	**0.81**	(48,467)	0.98
Forfeited	**(442,446)**	**1.09**	(256,667)	0.92
Outstanding at end	**7,024,231**	**1.39**	4,993,568	0.89
Exercisable at end	**2,637,905**	**0.77**	2,947,068	0.72

Notes to the Consolidated Financial Statements

Years ended December 31, 2016 and 2015 (In thousands of US dollars, unless otherwise indicated)

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

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

	Outstanding Options		Exercisable Options	
Exercise Price in US$	**Number**	**Average Remaining Contractual Life (year)**	**Number**	**Average Remaining Contractual Life (year)**
$0.35 to $0.84	**1,522,103**	**3.59**	**1,397,925**	**3.16**
$1.02 to $1.58	**2,792,834**	**7.93**	**996,823**	**6.25**
$1.70 to $2.76	**2,709,294**	**9.27**	**243,157**	**3.56**
	7,024,231	**7.51**	**2,637,905**	**4.37**

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

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

14. Reserve – Warrants

			Restated (Note 2)	
$US	**Number**	**2016 Weighted Average Exercise Price $**	Number	2015 Weighted Average Exercise Price $
Outstanding at Beginning	**8,977,200**	**1.33**	-	-
Issued	**-**	**-**	9,660,000	1.33
Exercised	**7,682,600**	**1.31**	(682,800)	1.35
Expired	**1,294,600**	**1.36**	-	-
Outstanding at end	**-**	**-**	8,977,200	1.33
Exercisable at end	**-**	**-**	8,977,200	1.33

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

Notes to the Consolidated Financial Statements

Years ended December 31, 2016 and 2015 (In thousands of US dollars, unless otherwise indicated)

14. Reserve – Warrant (cont'd)

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

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

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

	2016	Restated (Note 2) 2015
Weighted Average Share Price	-	$0.92
Exercise Price	-	$1.37
Risk Free Interest Rate	-	1.45%
Estimated Share Price Volatility	-	43.5%
Expected Life (without the option to accelerate the maturity)	-	23 months
Expected Dividend Yield	-	0%

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

15. Capital Management

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

Notes to the Consolidated Financial Statements

Years ended December 31, 2016 and 2015 (In thousands of US dollars, unless otherwise indicated)

16. Additional Information Relating to Cash Flows

	2016 $	Restated (Note 2) 2015 $
Changes in Non-Cash Operating Working Capital Items		
Decrease (Increase) in Current Assets		
Accounts Receivable	**(1,881)**	(260)
Inventories	**(401)**	(375)
Prepaid Expenses	**(23)**	(4)
Increase (Decrease) in Current Liabilities		
Accounts Payable, Accrued Liabilities	**984**	816
Warranty Provision	**546**	29
Deferred Revenues	**202**	(22)
Deferred revenues related to the License Fee	**(789)**	7,649
	(1,362)	7,833
Warrants exercised receivable	**(50)**	50
Inventories transferred to Property, Plant and Equipment	**(1,185)**	(24)
	(2,597)	7,859
Research and Development Tax Credits		
Received	**155**	23

17. Related Party Transactions

Compensation of Key Management Personnel

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

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

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

	2016 $	Restated (Note 2) 2015 $
Short-term salaries and other benefits	**1,825**	1,157
Post-employment Benefits	**-**	298
Share-Based Payments	**13**	2
Share-Based Awards(1)	**852**	127
	2,690	1,584

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

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

Notes to the Consolidated Financial Statements

Years ended December 31, 2016 and 2015 (In thousands of US dollars, unless otherwise indicated)

18. Income Taxes

Income tax expense is comprised of the following:

	December 31, 2016 $	Restated (Note 2) December 31, 2015 $
Current Tax Expense	**-**	-
Deferred Tax Expense	**109**	-
	109	-

Reconciliation of the effective income tax expense (recovery)

The statutory tax rate of the Company is 26.90% (26.90% for 2015). The Company's income tax expense (recovery) differs from the one calculated by applying Canadian statutory rates for the following reasons:

	December 31, 2016 $	Restated (Note 2) December 31, 2015 $
Earnings (Loss) before Income Taxes	**(4,270)**	(6,336)
Income taxes at the standard rate of Canadian Corporate tax of 26.90%	**(1,149)**	(1,704)
Increase (Decrease) resulting from:		
Effect of tax rate for foreign subsidiary	**43**	3
Changes in tax laws and rates	**275**	-
Non-deductible items	**180**	136
Adjustments in respect of prior years	**289**	-
Tax losses and deductible temporary differences for which no deferred income tax assets is recognized	**462**	1,565
	109	(0)

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

	December 31, 2016 $	Restated (Note 2) December 31, 2015 $
Property, Plant and Equipment	**109**	-
	109	-

Notes to the Consolidated Financial Statements

Years ended December 31, 2016 and 2015 (In thousands of US dollars, unless otherwise indicated)

18. Income Taxes (cont'd)

As at December 31, 2016, the accumulated tax losses that can be carried forward are as follows:

Expiry Date	Loss carry-forwards Federal $	Loss carry-forwards Provincial $
2036	3,415	3,415
2035	5,517	5,400
2034	4,265	4,055
2033	5,883	5,624
2032	3,674	3,435
2031	4,606	4,316
2030	4,911	4,712
2029	5,638	5,304
2028	5,997	5,988
2027	4,635	5,081
2026	4,082	4,335
	52,624	47,330

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

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

	December 31, 2016 $	Restated (Note 2) December 31, 2015 $
Property, Plant and Equipment	**3,297**	3,253
Intangible Assets	**(443)**	(321)
Financing Fees	**660**	1,073
SR&ED Expenditures	**9,843**	9,387
Investment tax credits, net of tax	**1,979**	1,882
Non-capital losses	**52,624**	47,819
	67,950	63,094

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 2016 totaled $0.31 M ($0.23 M in 2015).

The Company also qualifies for tax credits refundable scientific research of $0.07 M at as December 31, 2016 ($0.06 M in 2015).

Notes to the Consolidated Financial Statements

Years ended December 31, 2016 and 2015 (In thousands of US dollars, unless otherwise indicated)

20. Segmented Information

The Company is structured as a single operating segment.

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

Revenues are allocated between geographic areas based on the location of the client and are as follows for years ended December 31, 2016 and 2015:

In thousands of US$	**2016 $**	**2016 %**	Restated (Note 2) 2015 $	Restated (Note 2) 2015 %
Canada	**336**	**3**	355	28
United States	**12,965**	**97**	893	72
	13,301	**100**	1,248	100

For the year 2016, revenue from Getinge represented 98% of the Company's total revenues in conjunction with Getinge and TSO_3's exclusive distribution agreement (71% for the same period in 2015). Shipments to Getinge were made in the United States.

21. Income (Loss) per Share

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

In thousands of us $, except per share amounts	**2016 $**	Restated (Note 2) 2015 $
Net loss		
Basic and Diluted	**(4,379)**	(6,336)
Number of Shares		
Weighted Average Number of Outstanding Shares	**90,810,123**	81,263,710
Number of Shares		
Weighted Average Number of Outstanding Shares Diluted[(1)]	**90,810,123**	81,263,710
Loss per Share		
Basic and Diluted	**(0.05)**	(0.08)
Comprehensive loss per Share Basic and Diluted	**(0.05)**	(0.10)

1) If the Company had a positive profit, the weighted average number of outstanding shares diluted would have been increased by 6.5 million as of December 31, 2016 (5.3 million as of December 31, 2015) for the calculation of the diluted net loss per share.

Notes to the Consolidated Financial Statements

Years ended December 31, 2016 and 2015 (In thousands of US dollars, unless otherwise indicated)

22. Contractual Commitments

As at December 31, 2016, the contractual commitments in the fiscal years to come are as follows:

In thousands of us $	2017 $	2018 $	2019 $	2020 $	2021 $
Operating leases and service contracts	282	93	90	59	-

Operating leases relate to leases of premises with lease terms of one or five years. The Company does not have an option to purchase the leased premises at the expiry of the lease periods. For the year ended December 31, 2016, lease expenses were $0.19 M ($0.14 M for the year ended December 31, 2015).

23. Approval of Financial Statements

The consolidated financial statements were approved by the Board of Directors on March 20, 2017.

Directors

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

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

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

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

Jeffrey Pompeo [5)]**,** President and Chief Executive Officer of CareTaker Medical Corporation

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

Linda Rosenstock [5)]**,** Corporate Director

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

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

1) Member of the Audit Committee and Risk Management Committee
2) Member of the Human Resources
3) Member of the Corporate Governance and Nominating Committee
4) Member of the Strategic Committee
5) Dr. Rosenstock and Mr. Pompeo were appointed has director in February 2017

Investor's Information

Bank
National Bank of Canada

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

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

Intellectual Property Solicitors
Borden Ladner Gervais LLP, Ottawa

TSO_3 Investors Relations

Liolios Group, Inc., Scott Liolios
T: 949 574-3860 | Email: TOS@tso3.com

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

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

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

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

Annual Shareholders' Meeting

Wednesday, May 10, 2017 at 10:30 am
McCord Museum
J.Armand Bombardier Theater
690 Sherbrooke West Street
Montréal (Québec)
H3A 1E9

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

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

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