2017 Quarterly Report

April, May, June

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Message from the President and Chief Executive Officer

Dear Valued Shareholders,

This past quarter saw significant improvements in revenue, end market traction and in the regulatory and industry shift toward the sterilization of flexible endoscopes.

During the quarter, the Company shipped 40 STERIZONE® VP4 sterilizers to Getinge in partial fulfillment of our 2017 purchase orders we received from Getinge. Shipments continue in an orderly fashion and I am happy with our efficient and quality production processes. Additionally in the quarter we shipped our proprietary consumables to Getinge, who warehouses these along with sterilizers for resale to end customer healthcare institutions. Our gross profit was up, and we continued to make key investments in our extended regulatory claims efforts, product development and sales and marketing efforts with Getinge.

This led to another quarter of increased installations with end customers, both in North America and Europe and represents an excellent cross section of educational, urban and rural medical institutions. With these installations we have been able to prove our value proposition again and again.

Installations in 2017 are progressing much better than in 2016 and we are working with Getinge management to improve performance toward a possible 'tipping point' where end-demand will outstrip production. As an example, Getinge is participating in multiple weeks of TSO_3 led training programs in our Myrtle Beach offices. We are implementing a Hospital Staff Super-User training starting in September. This training will help keep the end-user abreast of the growing instrument list that is validated with our sterilizer and tools available to maximize the efficiency of every load. Getinge is also receiving more new and repeat orders. These installations are coming in from high profile customers.

As we look at 2018 and beyond, we are planning for increased production capacity, our future product portfolio, and action steps in approaching the gastrointestinal endoscopy (GI) market with our innovative technology. At TSO_3 we have stated that it is our purpose "to provide a sterile instrument for every procedure", and this past quarter we believe that we saw evidence that we are not the only ones thinking this way. During the quarter, US regulators sent what we view as a message to the industry. In the future, 510(k) submissions by endoscope manufacturers ("OEMs"), required to introduce specific types of endoscopes must include validated sterilization indications for use. This is the new requirement in the United States. We are the only company today that has a validated and cleared technology that can terminally sterilize the duodenoscopes (claims in Canada and Europe only so far), colonoscopes and other flexible endoscopes included in the parameters of this new regulation. Almost immediately after this announcement, a number of OEMs reached out to us to get a pole position in our instrument compatibility work. We, of course, were pleased to oblige.

Just after the end of the second quarter, we submitted a 510(k) application for expanded claims for flexible endoscopes having unique elevator guide mechanisms (e.g. duodenoscopes). Our data confirm that our sterilizer can terminally sterilize duodenoscopes, which are 'ground zero' in the industry dialogue around 'superbug' contamination in endoscopes. This is a big step in our march to proving that a sterilized scope is possible, and giving hospitals and patients a way to deal with the significant risks they are exposed to by using non-sterile scopes. Meanwhile, the extensive litigation in this space is beginning to hold OEMs and hospitals accountable for defective reprocessing.

We believe this industry trend is real and likely to continue.

We thus ended the quarter with a growing list of reference customers, identified and pending sales opportunities, efforts toward extended duodenoscope claims, and a regulatory environment that is shifting in our favour.

I would like to thank the team for all their efforts in bringing real change to sterile reprocessing and our owners, the shareholders of this Company, for your continued support.

R.M. (Ric) Rumble

Overview

General Description

TSO_3 Inc. ("TSO_3", or the "Company") was founded in June 1998 in Québec City, Canada and employs 73 people as of June 30, 2017. The Company's activities encompass the sale, production, maintenance, research, development and licensing of sterilization processes, related consumable supplies and accessories for medical devices that are sensitive to heat and moisture. The Company designs products for sterile processing areas in medical facilities that offer an advantageous replacement solution to other low temperature sterilization and high level disinfection processes currently used. TSO_3 also offers services related to the maintenance of sterilization equipment and compatibility testing of medical devices with such processes.

TSO_3 Corporation, the Company's wholly-owned subsidiary incorporated in 2015, is located in the State of South Carolina, USA and was established to meet US customer requirements. The US represents approximately 40% of the worldwide market for low-temperature sterilization equipment. The US location is used for 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 sterilizer cleared to terminally sterilize duodenoscopes (Canada and Europe)

- First low-temperature sterilizer with a load-sensitive *Dynamic Sterilant Delivery System*™;
- First documented "wet" cycle with validated micro-condensation sterilant layer;
- First Biological Indicator Test Pack to survive past the first half-cycle.

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

TSO_3's technologies also allow an industry first in terminal medical device sterilization: medical facilities now have an opportunity to terminally sterilize complex medical instruments such as colonoscopes, gastroscopes and other multi-channel flexible scopes, which previously could only be treated in a less effective process known as "high-level disinfection". Low temperature sterilization with the STERIZONE® VP4 Sterilizer offers a more 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 multiple brands of duodenoscopes used in the majority of ERCP procedures globally. This breakthrough comes at a critical time, with the growing use of duodenoscopes, along with the increasing number of adverse incidents related to ineffectual reprocessing. TSO_3 is currently cleared for duodenoscopes in the Canadian and European markets and on July 20, 2017, the Company filed a 510(k) submission for its STERIZONE® VP4 Sterilizer for the terminal sterilization of duodenoscopes in the United States.

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

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

Another method that played a role in a sub-segment of low temperature reprocessing was that of liquid chemical sterilization processes. This type of process is used directly in the operating room as a just-in-time method to complement the central sterilization department's sterile production. The gastrointestinal department remains a heavy user of liquid chemical systems for the reprocessing of endoscopes. These systems are under increased scrutiny due to identified cases of patient to patient cross contamination of multidrug resistant bacteria.

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

Second Quarter 2017 and Recent Activities

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.

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

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

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 Company shipped an additional 40 STERIZONE® VP4 Sterilizers to Getinge in the second quarter of 2017 in partial fulfillment of these orders, for a year-to-date total of 76 STERIZONE® VP4 Sterilizers as at June 30, 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. The Company recognizes revenue when it sells its sterilizers to Getinge. Getinge is also receiving ongoing technical support from TSO_3 as part of the Getinge Agreement.

The exclusive partnership with a top global provider of infection control devices and services represents an endorsement of the STERIZONE® Sterilization System to sterilize the most challenging loads and complex devices used in healthcare today. Getinge, with TSO_3's support, is selling and installing the STERIZONE® VP4 Sterilizers into US hospitals and initial feedback from end customers has been strong.

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.

Supply Chain Financing

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

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

TSO_3 has used the program during the first half of 2017.

European Expansion

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

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

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

Intellectual Property

Considering the time and investment required to develop new products and obtain marketing authorization, the Company places considerable importance on protecting its research findings, trade secrets and technologies. As of June 30, 2017, TSO_3 had 103 issued 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.

During the first quarter of 2017, the Company has been notified by the Canadian Patent Office of its decision to grant a second and a third additional patent covering important aspects of TSO_3's technology while a second patent has been granted in Mexico.

In connection with the international patent application filed in 2015 and related to biological indicators (BI) used to monitor effectiveness of a sterilization process, the Company received a Preliminary International Examination Report stating that all the submitted claims are considered patentable.

During the second quarter of 2017:

- The Japanese Patent Office granted to the Company an eighth patent on an additional critical aspect of TSO_3's technology to further strengthen patent protection of the STERIZONE® Sterilization System;
- A third patent which covers a core aspect of the technology embedded in the STERIZONE® Sterilization System has been granted in Mexico;
- A first patent covering another core aspect of the technology embedded in the STERIZONE® Sterilization System has been granted to the Company in South Korea to further expand the geographical patent protection coverage of the Company;

- The Canadian Patent Office allowed to the Company a fourth patent which covers an important aspect of TSO_3's technology embedded in the STERIZONE® Sterilization System;

- The Patent Office of South Africa granted to the Company a first patent on its innovative methods further improving compatibility under differing load conditions for surgical instruments and accessories;

- An International Patent Application previously filed on biological indicators (BI) used to monitor effectiveness of a sterilization process has now entered the national phase in several countries.

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

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

2017 Focus

In 2017, TSO_3 will continue to focus its resources to help Getinge achieve its objectives. To this end, TSO_3 will be expanding training and sales meetings and further invest in 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 has expanded 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 to demonstrate its technology and educate Getinge and the hospitals on the impact its technologies can have on reprocessing efficiency, effectiveness, throughput and simplicity, as well as endoscope terminal sterilization.

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

On July 20, 2017, the Company announced that it had filed a 510(k) submission with US regulators for its STERIZONE® VP4 Sterilizer for the terminal sterilization of duodenoscopes used in endoscopic retrograde cholangio-pancreatography (ERCP) procedures. If awarded such claim, TSO_3's STERIZONE® VP4 Sterilizer would become the first and only validated sterilizer technology in the US with a cleared label claim for the terminal sterilization of duodenoscopes. The Company's filing is supported by laboratory data that validates that the STERIZONE® VP4 Sterilizer, with its dual sterilants of hydrogen peroxide and ozone, can terminally sterilize multi-channel flexible endoscopes with a distal end elevator mechanism (duodenovideoscopes). If received, such US clearance would match existing claims already made by the Company in Canada and Europe.

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. for the three-month and six-month periods ended June 30, 2017 and to compare them with the three-month and six-month periods ended June 30, 2016. This information is dated August 1, 2017 and should be read in conjunction with the Interim Condensed Consolidated Unaudited Financial Statements and the accompanying notes. Unless specified otherwise, all amounts are stated in US dollars.

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

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

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

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

Forward Looking Statements

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

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

- The success of the relationship with Getinge and suppliers;
- 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 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 June 30, 2017.

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

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

Summary of Results

Periods ended June 30, 2017 and 2016 (Unaudited, IFRS Basis, in thousands of US dollars, except per share amounts)

	Second Quarter		**Six months**	
	2017	2016	**2017**	2016
	$	$	**$**	$
Revenues	**4,630**	2,977	**8,841**	6,048
Cost of sales	**2,871**	2,143	**5,511**	4,104
Gross profit	**1,759**	834	**3,330**	1,944
Expenses				
Research and development	**1,539**	804	**2,894**	1,410
Selling, general and administrative	**2,396**	1,529	**4,604**	2,914
Financial expenses (income)	**49**	-	**10**	(1,588)
Total Expenses	**3,984**	2,333	**7,508**	2,736
Net loss before income taxes	**(2,225)**	(1,499)	**(4,178)**	(792)
Income taxes	**29**	(12)	**56**	46
Net loss and comprehensive loss	**(2,254)**	(1,487)	**(4,234)**	(838)
Weighted average number of outstanding shares (in thousands)	**92,328**	91,036	**92,162**	89,794
Basic and diluted net loss per share	**(0.02)**	(0.02)	**(0.05)**	(0.01)
Basic and diluted net comprehensive loss per share	**(0.02)**	(0.02)	**(0.05)**	(0.01)

Results Analysis

Below, the Company discusses the variations of certain accounts within the second quarters of 2017 and 2016 and within the six-month period ended June 30, 2017 and 2016.

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

REVENUES

For the second quarter of 2017, revenues equalled $4.6 million, as compared to $3.0 million in the second quarter of 2016. TSO_3 shipped 40 STERIZONE® VP4 Sterilizers to Getinge and recorded $0.2 million of Getinge licensing revenue in the second quarter of 2017, as compared to 25 units shipped and $0.1 million of licensing revenue in the same period in 2016. For the six-month period ended June 30, 2017, revenue equalled $8.8 million as compared to $6.0 million for the same period in 2016. Sales of the Company's proprietary consumables in the first half of 2017 also contributed to the Company's total revenue growth relative to the same period of 2016, reflecting increased installations of its STERIZONE® VP4 Sterilizers in medical facilities in North America.

NET LOSS

In the second quarter of 2017, net loss and comprehensive loss totaled $2.3 million or ($0.02) per share, as compared to a net loss of $1.5 million or ($0.02) per share in the second quarter of 2016. For the six-month period ended June 30, 2017, net loss and comprehensive loss totaled $4.2 million, as compared to a net loss and comprehensive loss of $0.8 million when excluding the $1.6 million non-recurring foreign exchange translation gain recorded as a result of the conversion of Canadian dollars into US dollars during the first quarter of 2016.

In the second quarter of 2017, gross profit increased by $0.9 million, as compared to the same period last year and by $1.4 million for the six-month period, mainly related to increased unit sales of the STERIZONE® VP4 Sterilizer to Gentinge offset by the increase of investments of $1.5 million made in research and development activities and $1.7 million in sales, general and administrative activities to support the business.

In the second quarter of 2017, $0.3 million of the increase in expenses resulted from growth in recorded non-cash stock compensation expense as compared to last year, and by $0.7 million for the six-month period ended June 30, 2017. Share-based compensation amortization grew as the Company issued stock options to new and existing employees. Also, as a result of the price of TSO_3 stock being higher at the time of grant than in prior periods, the Black-Scholes value of each option, which is the basis on which the Company calculates stock compensation expense, was higher.

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

Supplemental Non-IFRS Financial Measures

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

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

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, and a one-time foreign exchange gain recorded in the first quarter of 2016, which resulted in the calculation of adjusted gross profit, adjusted EBITDA and adjusted net income.

IFRS AND NON-IFRS COMPARISON

	2017		2016							
	Q2	Q1	Q1		Q1	Q2	Q3	Q4		Q4
$000's	IFRS	IFRS	IFRS	Adjust-ments[1]	Non-IFRS	IFRS	IFRS	IFRS	Adjust-ments[1]	Non-IFRS
Revenues	4,630	4,211	3,071	-	3,071	2,977	3,507	3,746	-	3,746
Cost of Goods Sold	2,871	2,641	1,961	-	1,961	2,143	2,368	2,716	(312)	2,404
Gross Profit	1,759	1,570	1,110	-	1,110	834	1,139	1,030	(312)	1,341
Gross Margin	38%	37%	36%	-	36%	28%	32%	28%	(8%)	36%
R&D	1,539	1,353	606	-	606	803	806	1,297	-	1,297
SGA	2,396	2,209	1,385	-	1,385	1,529	1,841	1,774	-	1,774
Financial	49	(39)	(1,588)	1,578	(10)	-	(50)	(21)	-	(21)
Net Income (loss) before tax	(2,225)	(1,953)	707	(1,578)	(871)	(1,499)	(1,458)	(2,020)	(312)	(1,708)
Tax	29	27	58	-	58	(12)	15	48	-	48
Net Income (loss)	(2,254)	(1,980)	649	(1,578)	(929)	(1,487)	(1,473)	(2,068)	(312)	(1,756)
Net Income (loss) per share	(0.02)	(0.02)	0.01	(0.02)	(0.01)	(0.02)	(0.02)	(0.02)	0.00	(0.02)
Adjusted Ebitda	(1,412)	(1,176)	1,000	(1,578)	(578)	(1,128)	(977)	(1,614)	(312)	(1,302)

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

Non-IFRS cost of goods sold, non-IFRS gross profit and non-IFRS gross margin were impacted in the fourth quarter of 2016 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.

Non-IFRS financial income in the first quarter of 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 2017 are denominated in Canadian dollars. Fluctuations in the value of Canadian dollars relative to US dollars will have an impact on the Company's operating results to the extent expenses in Canadian dollars are not offset by revenues in the same currency.

In the second quarter of 2017, total expenses denominated in Canadian dollars were CAD$3.9 million, as compared to CAD$3.4 million in the second quarter in 2016. The average USD/CAD foreign exchange rate in the second quarter of 2017 was 0.7437 as compared to 0.7761 in the second quarter of 2016, which is reflected in a decrease in expenses of 4% year over year upon conversion to USD.

From a quarterly sequential perspective, the USD/CAD foreign exchange rate in the second quarter of 2017 was 0.7437, as compared to 0.7559 in the first quarter of 2017, which is reflected in a decrease in expenses of less than 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 three-month period ended June 30, 2017, cost of sales equaled $2.9 million, as compared to $2.1 million for the same period in 2016. For the six-month period ended June 30, 2017, cost of sales equaled $5.5 million, as compared to $4.1 million for the same period in 2016. In the first and second quarters of 2017, TSO_3 shipped 36 and 40 STERIZONE® VP4 Sterilizers respectively, as compared to 25 sterilizers in each quarter of 2016.

Gross profit was $1.8 million, or 38% of revenue in the second quarter of 2017, as compared to $0.8 million, or 28% of revenue in the second quarter of 2016. This increase in gross margin contribution in 2017 resulted from growth of higher gross margin consumables sales and production cost reductions of STERIZONE® VP4 Sterilizers which, more than offset a decrease in accessories revenues on a year-over-year basis.

Research and development

For the quarter ended June 30, 2017, research and development expenses were $1.5 million, as compared to $0.8 million for the same period in 2016. For the six-month period ended June 30, 2017, these expenses were $2.9 million, as compared to $1.4 million in 2016. During the first half of 2017, the Company incurred $0.4 million of additional expenses related to material purchases, equipment maintenance, depreciation and building expenses to run the laboratory in Myrtle Beach. Also, these expenses were for extended endoscope regulatory claims, other endoscope and medical device compatibility studies for its STERIZONE® VP4 Sterilizer. To support project development and the new laboratory, the Company also increased salary, share-based compensation and travelling expenses by $1.0 million as compared to the same period last year.

Selling, General and Administrative (SG&A)

Selling, general and administrative (SG&A) includes marketing, sales and service and administrative expenses. SG&A expenses were $2.4 million for the quarter ended June 30, 2017, as compared to $1.5 million for the the same period in 2016, with $0.3 million of this growth as a result of an increase in non-cash stock compensation expense. For the six-month period ended June 30, 2017, these expenses were $4.6 million, as compared to $2.9 million in 2016, with $0.6 million of this growth resulting from non-cash stock compensation expense.

During the first half of 2017, as compared to the same period in 2016, the Company incurred an additional $1.3 million in salary, non-cash share based compensation, travelling and recruiting fees as it expanded its management team, and $0.3 million in professional fees associated with commercialization, marketing and administration. All commercialization and marketing efforts were incurred to develop our strategic partnerships with hospitals and to support Getinge in the sales of our products in the Canadian, US and European markets.

Share-based compensation expense

For the quarter ended June 30, 2017, non-cash share-based compensation amortization amounted to $0.6 million, as compared to $0.3 million for the same period in 2016. For the six-month period ended June 30, 2017, theses expenses amounted to $1.2 million, as compared to $0.5 million for the same period in 2016.

As at June 30, 2017, the Company had 6.4 million stock options oustanding, as compared to 5.7 million at the same date in 2016. Share-based compensation amortization grew as the Company issued more stock options to new and existing employees, and the Black-Scholes value of each option was higher as a result of a higher underlying stock price at the time of grant.

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

Financial expenses (income)

For the quarter and six-month period ended June 30, 2017, along with the second quarter of 2016, financial expense were immaterial. Financial expenses recorded in the first six months of 2016 included a $1.6 million non-recurring foreign exchange translation gain recorded as a result of the conversion of Canadian dollars into US dollars during the first quarter of 2016.

Financial Position Analysis

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

	June 30, 2017	December 31, 2016
	$	$
Cash, cash equivalents and investments (short and long term)	**16,740**	19,260
Accounts receivable	**615**	2,318
Inventories	**2,467**	1,703
Property, plant and equipment	**2,941**	2,357
Intangibles assets	**1,897**	1,836
Accounts payable, accrued liabilities and deferred income tax liabilities	**2,365**	2,381
Warranty provision	**898**	575
Deferred revenues (short and long term)	**6,534**	6,949
Equity	**15,043**	17,671

Liquid Assets

As at June 30, 2017, cash, cash equivalents and investments amounted to $16.7 million, as compared to $19.3 million as at December 31, 2016.

In the second quarter and for the first half of 2017, the Company used approximately $1.4 million and $2.7 million respectively in cash from operations, excluding the effects of changes in working capital, as compared to $0.9 million and $1.8 million for the same period in 2016 (when excluding the one-time $1.6 million foreign exchange translation gain). In the second quarter the Company used $1.0 million in cash for non-cash working capital to support our growing business, as compared to $1.8 million used during the same period in 2016. In the first half of 2017 the Company generated $0.7 million in cash from non-cash working capital as compared to $3.4 million used during the same period in 2016.

Accounts Receivable

As at June 30, 2017, accounts receivable amounted to $0.6 million, as compared to $2.3 million as at December 31, 2016. As at June 30, 2017, receivables mainly related to R&D and sales tax credits, while receivables, as at December 31, 2016, also included a significant amount receivable from Getinge. In the second quarter of 2017, the Company used the automated receivable factoring program for almost all accounts receivable from Getinge.

Inventories

As at June 30, 2017, inventories amounted to $2.5 million, as compared to $1.7 million as at December 31, 2016.

	June 30, 2017 $	December 31, 2016 $
Raw Materials	**1,451**	1,023
Work in Progress	**345**	137
Finished Goods	**671**	543
	2,467	1,703

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

Property, Plant and Equipment

Property, plant and equipment amounted to $2.9 million as at June 30, 2017 which is $0.6 million higher compared to December 31, 2016. During the six-month period, TSO_3 invested a total of $0.9 million in property, plant and equipment. Of this amount, $0.3 million was invested in equipment and tools, $0.3 million in medical devices and $0.3 million in sterilizers for use in its laboratories.

Intangible Assets

Intangible assets, net of amortization, increased from $1.8 million at the end of 2016 to $1.9 million as at June 30, 2017.

Accounts Payable, Accrued Liabilities and Deferred Income Tax Liabilities

As at June 30, 2017, accounts payable, accrued liabilities and deferred income tax liabilities amounted to $2.4 million, which was the same amount as at December 31, 2016. As at June 30, 2017 the Company recorded $0.2 million as deferred income tax liabilities as compared $0.1 million as at December 31, 2016.

Deferred Revenues

At the end of the second quarter of 2017, deferred revenues represented almost exclusively the unamortized part of the deferred license revenue received under the Getinge Agreement.

During the second quarter of 2017, the Company recorded $0.2 million of license revenue, which is recorded as revenue as services are rendered and products are delivered over the term of the Getinge Agreement, as compared to $0.1 million in 2016.

Shareholders' Equity

As at June 30, 2017, Shareholders' Equity amounted to $15.0 million, as compared to $17.7 million as at December 31, 2016. The variation is mainly the result of the absorption of the operating deficit incurred during the first half of 2017 partially offset by $1.2 million in share-based compensation amortization during the same period.

As at June 30, 2017, the number of outstanding shares was 92,742,704 (91,977,214 as at December 31, 2016).

Cash Flows Analysis

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

	Six months	
	2017	2016
	$	$
Operating Activities	**(1,853)**	(3,608)
Investing Activities	**5,030**	(10,134)
Financing Activities	**405**	10,287

Operating Activities

Cash used by the operating activities amounted to $1.9 million for the six-month period ended June 30, 2017, as compared to $3.6 million used during the corresponding period in 2016. In the second quarter of 2017, the Company generated $0.8 million in cash from working capital adjustments ($3.4 million used in 2016), and consumed $2.8 million in net loss after adjusting for non-cash items (net loss of $0.2 million in 2016 including the $1.6 million foreign exchange translation gain from the translation of Canadian dollars into US dollars).

Investing Activities

For the six-month period ended June 30, 2017, investing activities generated $5.0 million, as compared to $10.1 million consumed during the same period in 2016; an increase resulting from the net disposal of $6.1 million in investments and the purchase of $1.2 million in property plant and equipment and intangible assets in the first half of 2017, as compared to $9.7 million and $0.5 million respectively in the same period last year.

Financing Activities

For the six-month period ended June 30, 2017, financing activities generated $0.4 million as compared to $10.3 million for the same period in 2016. The total amount generated in the second quarter of 2017 was from options exercised while $10.1 million in the first half of 2016 was from warrant exercises expiring in February 2016.

Summary of Quarterly Results

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

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

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

Segmented Information

The Company is structured as a single operating segment.

	Second quarter		Six months	
Revenues	**2017**	2016	**2017**	2016
Canada and worldwide	**87**	98	**197**	167
United States	**4,543**	2,879	**8,644**	5,881
	4,630	2,977	**8,841**	6,048

	June 30, 2017			December 31, 2016		
	Inventories	**Property, Plant and Equipment**	**Intangible Assets**	Inventories	Property, Plant and Equipment	Intangible Assets
Canada and worldwide	**2,045**	**1,331**	**1,879**	1,638	1,069	1,836
United States	**422**	**1,610**	**18**	65	1,288	-
	2,467	**2,941**	**1,897**	1,703	2,357	1,836

For the second quarter of 2017, revenue from Getinge represented 98% of the Company's total revenues in conjunction with the Getinge Agreement (97% for the same period in 2016).

Off-Balance Sheet Arrangement

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

Additional Disclosure – Unrecorded Tax Assets

The Company has accumulated a substantial amount of losses, unclaimed expenses and tax credits that could be claimed in the future to reduce income taxes. The related deferred income tax assets will be recorded on the Condensed Consolidated Financial Statements only when the Company concludes that these tax assets will probably be materialized by shielding profits from taxes, or otherwise. If the Company had reached this conclusion on June 30, 2017, $21.7 million in tax assets, as compared to $20.0 million as at December 31, 2016, would have been recorded based on an effective rate of 15% for federal taxes and 11.5% for provincial taxes (15% for federal taxes and 11.9% for provincial taxes as at December 31, 2016).

Capital Resources

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

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

The Company invests its funds in highly liquid short-term investments as required by its Investment Policy (see section on Risk Factors presented in the Annual Management Discussion and Analysis of the Company for the year ended December 31, 2016). 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 operates in industry segments that have a variety of risk factors and uncertainties. TSO_3 hereby incorporates by reference the risks and uncertainties described in our Annual Management Discussion and Analysis of the Company for the year ended December 31, 2016 which reflect, to its knowledge, the material risks and uncertainties the Company faced as at June 30, 2017.

Disclosure and Internal Controls

In accordance with National Instrument 52-109 of the Canadian Securities Administrators, the Company has filed certificates signed by the President and Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO") that, among other things, report on the design 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 the interim period ended June 30, 2017.

Changes in internal controls over financial reporting

No changes were made to the Company's internal controls over financial reporting that occurred during the quarter ended June 30, 2017 that have materially affected, or are reasonably likely to materially affect, the internal controls over financial reporting.

INTERIM CONDENSED CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS

For the three-month and six-month periods ended June 30, 2017 and 2016

Interim Condensed Consolidated Statements of Loss and Comprehensive Loss

Periods ended June 30, 2017 and 2016 (Unaudited, in thousands of US dollars, except per share amounts)

	Notes	Second Quarter 2017 $	Second Quarter 2016 $	Six months 2017 $	Six months 2016 $
Revenues		**4,630**	2,977	**8,841**	6,048
Cost of sales		**2,871**	2,143	**5,511**	4,104
Gross profit		**1,759**	834	**3,330**	1,944
Expenses					
Research and development		**1,539**	804	**2,894**	1,410
Selling, general and administrative		**2,396**	1,529	**4,604**	2,914
Financial expenses (income)	**4**	**49**	-	**10**	(1,588)
Total Expenses		**3,984**	2,333	**7,508**	2,736
Net loss before income taxes		**(2,225)**	(1,499)	**(4,178)**	(792)
Income taxes		**29**	(12)	**56**	46
Net loss and total comprehensive loss		**(2,254)**	(1,487)	**(4,234)**	(838)
Basic and diluted net loss per share	**17**	**(0.02)**	(0.02)	**(0.05)**	(0.01)
Basic and diluted net comprehensive loss per share	**17**	**(0.02)**	(0.02)	**(0.05)**	(0.01)

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

Interim Condensed Consolidated Statements of Changes in Equity

(Unaudited, in thousands of US dollars)

	Notes	Share Capital $	Reserve-Share-Based Compen-sation $	Reserve – Warrants $	Deficit $	Other Comprehen-sive Income $	Total $
Balance at January 1, 2016		98,817	3,990	493	(91,455)	(1,712)	10,133
Options exercised	13	214	(72)	-	-	-	142
Warrants exercised	12,14	10,486	-	(391)	-	-	10,095
Warrants expired	14	-	-	(102)	102	-	-
Share-based compensation	13	-	484	-	-	-	484
Net loss for the period		-	-	-	(838)	-	(838)
Balance at June 30, 2016		109,517	4,402	-	(92,191)	(1,712)	20,016
Balance at July 1, 2016		109,517	4,402	-	(92,191)	(1,712)	20,016
Options exercised	13	889	(312)	-	-	-	577
Share-based compensation	13	-	619	-	-	-	619
Net loss for the period		-	-	-	(3,541)	-	(3,541)
Balance at December 31, 2016		110,406	4,709	-	(95,732)	(1,712)	17,671
Balance at January 1, 2017		110,406	4,709	-	(95,732)	(1,712)	17,671
Options exercised	12,13	617	(212)	-	-	-	405
Share-based compensation	13	-	1,201	-	-	-	1,201
Net loss for the period		-	-	-	(4,234)	-	(4,234)
Balance at June 30, 2017		111,023	5,698	-	(99,966)	(1,712)	15,043

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

Interim Condensed Consolidated Statements of Financial Position

(Unaudited, in thousands of US dollars)

	Notes	June 30, 2017 $	December 31, 2016 $
Current Assets			
Cash and Cash Equivalents	6	**6,280**	2,698
Short-term Investments	6	**10,460**	15,064
Accounts Receivable	7	**615**	2,318
Inventories	8	**2,467**	1,703
Prepaid Expenses		**180**	102
		20,002	21,885
Non-current Assets			
Long-term Investments	6	**-**	1,498
Property, Plant and Equipment	9	**2,941**	2,357
Intangible Assets	10	**1,897**	1,836
		4,838	5,691
		24,840	27,576
Current Liabilities			
Accounts Payable and Accrued Liabilities	6	**2,200**	2,272
Warranty Provision		**898**	575
Deferred Revenues	11	**1,025**	1,004
		4,123	3,851
Non-current Liabilities			
Deferred Income Tax Liabilities		**165**	109
Deferred Revenues	11	**5,509**	5,945
		9,797	9,905
Equity			
Share Capital	12	**111,023**	110,406
Reserve – Share-based Compensation	13	**5,698**	4,709
Deficit		**(99,966)**	(95,732)
Accumulated Other Comprehensive Loss		**(1,712)**	(1,712)
		15,043	17,671
		24,840	27,576

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

Interim Condensed Consolidated Statements of Cash Flows

Periods ended June 30, 2017 and 2016 (Unaudited, in thousands of US dollars)

	Notes	Six months 2017 $	2016 $
Cash flows from operating activities			
Net loss		**(4,234)**	(838)
Adjustments for:			
Depreciation and amortization		**389**	180
Deferred income tax liabilities		**56**	-
Share-based compensation	13	**1,201**	484
Investment income	4	**(91)**	(66)
		(2,679)	(240)
Changes in non-cash operating working capital items	15	**723**	(3,416)
Interest received		**103**	48
Cash flows used in operating activities		**(1,853)**	(3,608)
Cash flows from investing activities			
Acquisition of investments		**(2,909)**	(12,121)
Disposal of investments		**8,999**	2,457
Acquisition of property, plant and equipment	9	**(909)**	(328)
Acquisition of intangible assets	10	**(151)**	(142)
Cash flows generated by investing activities		**5,030**	(10,134)
Cash flows from financing activities			
Options exercised	12	**405**	142
Warrants exercised	12, 14	**-**	10,145
Cash flows generated by financing activities		**405**	10,287
Increase in cash and cash equivalents		**3,582**	(3,455)
Cash and cash equivalents at the beginning		**2,698**	12,654
Cash and cash equivalents at the end		**6,280**	9,199

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

Notes to the Interim Condensed Consolidated Financial Statements

Periods ended June 30, 2017 and 2016 (Unaudited, in thousands of US dollars, unless otherwise indicated)

1. Description of Business

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

2. Accounting Policies

Statement of Compliance

The Interim condensed consolidated unaudited financial statements ("financial statements") are prepared in compliance with International Accounting Standard 34 – Interim Financial Reporting ("IAS 34"). Accordingly, certain information and footnote disclosure normally included in annual financial statements prepared in accordance with International Financial Reporting Standards (IFRS) and applicable as at June 30, 2017 have been omitted or condensed. As such, these financial statements should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2016.

Accounting Policy Adopted

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. As at January 1, 2017, the Company adopted the amendments to IAS 7 and it had no impact on its financial statements.

3. Future Accounting Changes

On July 25, 2014, the IASB completed its project on financial instruments by publishing amendments to IFRS 9 "Financial Instruments", which replaces the provisions of IAS 39 "Financial Instruments: Recognition and Measurement". IFRS 9, as amended, introduces a logical approach for the classification of financial assets, which is driven by cash flow characteristics and the business model in which an asset is held. This single, principle-based approach replaces existing rule-based requirements that are generally considered to be overly complex and difficult to apply. The new model also results in a single impairment model being applied to all financial instruments, thereby removing a source of complexity associated with previous accounting requirements. The IFRS 9 is effective for annual periods beginning on or after January 1, 2018. Early adoption is permitted. To date, the Company does not expect the new standard to result in material changes aside from disclosure requirements.

The IASB also published IFRS 15 - Revenue from Contracts with Customers, which replaces all the revenue standards and interpretations in IFRS, including IAS 11 - Construction Contracts and IAS 18 - Revenue. The IFRS 15 is effective for annual periods beginning on or after January 1, 2018. Early adoption is permitted for IFRS 15. It is not yet possible to make a reliable estimate of the impact of the new standard on the Company's financial statements as the Company continues to assess the impact of adopting this standard on its financial statements.

Notes to the Interim Condensed Consolidated Financial Statements

Periods ended June 30, 2017 and 2016 (Unaudited, in thousands of US dollars, unless otherwise indicated)

3. Future Accounting Changes (cont'd)

On September 16, 2014, the IASB published an amendment to IFRS 10 – Consolidated Financial Statements and to IAS 28 - Investments in Associates and Joint Ventures. The amendment "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture" clarifies the accounting for the gain or loss resulting from loss of control or from transfer of assets following a transaction with an associate or joint venture. Originally, the provisions of this amendment were supposed to apply prospectively to financial statements beginning on or after January 1, 2016. However, in December 2015, IASB published an amendment which defers the application to financial statements beginning on or after a date to be determined. Early adoption is permitted. To date, the Company does not expect the new standard to result in material changes.

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

4. Financial expenses (income)

	Second Quarter		Six months	
	2017	2016	**2017**	2016
	$	$	**$**	$
Investment Income	**(16)**	(28)	**(91)**	(66)
Bank Charges	**13**	7	**24**	15
Factorization cost	**20**	-	**38**	-
Foreign Exchange Loss (Gain)	**32**	21	**39**	(1,537)
	49	-	**10**	(1,588)

Notes to the Interim Condensed Consolidated Financial Statements

Periods ended June 30, 2017 and 2016 (Unaudited, in thousands of US dollars, unless otherwise indicated)

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

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

	Second Quarter		Six months	
	2017	2016	**2017**	2016
	$	$	**$**	$
Salary and Other Benefits	**1,849**	1,439	**3,714**	2,690
Share-based compensation expense	**592**	268	**1,201**	484
Depreciation of Property, Plant and Equipment	**177**	58	**299**	97
Amortization of Intangible Assets	**44**	45	**90**	83

6. Financial Instruments

Cash and Cash Equivalents

	June 30, 2017	December 31, 2016
	$	$
Cash	**6,280**	2,698

Investments

	June 30, 2017	December 31, 2016
	$	$
Short-term Investments		
Bank Guaranteed Investment Certificates	**-**	2,015
Bonds	**10,460**	13,049
	10,460	15,064
Long-term Investments		
Bonds	**-**	1,498
	10,460	16,562

Investments were rated A+ or better and had an average yield of 1.36% as at June 30, 2017.

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 quarter ended June 30, 2017 (no transfer in 2016).

Notes to the Interim Condensed Consolidated Financial Statements

Periods ended June 30, 2017 and 2016 (Unaudited, in thousands of US dollars, unless otherwise indicated)

6. Financial Instruments (cont'd)

Accounts Receivable

	June 30, 2017 $	December 31, 2016 $
Accounts Receivable	**615**	2,318

Accounts Payable and Accrued Liabilities

	June 30, 2017 $	December 31, 2016 $
Accounts Payable and Accrued Liabilities	**2,200**	2,272

7. Accounts Receivable

	June 30, 2017 $	December 31, 2016 $
Receivables from Clients	**129**	2,025
Government Credits Receivable	**486**	293
	615	2,318

There were no bad debt allowances as at June 30, 2017 nor as at December 31, 2016.

8. Inventories

	June 30, 2017 $	December 31, 2016 $
Raw Materials	**1,451**	1,023
Work in Progress	**345**	137
Finished Goods	**671**	543
	2,467	1,703

9. Property, Plant and Equipment

During the six-month period ended June 30, 2017, the Company invested a total of $0.9 million in property, plant and equipment. Of this amount, $0.3 million was invested in equipment and tools, $0.3 million in medical devices and $0.3 million in sterilizers. For the entire year 2016, the Company acquired $1.1 million in equipment and tools, marketing demonstration equipment, medical devices in the Company's laboratories in Canada and in the United States, computer equipment and leasehold improvements; and also capitalized $1.2 million for sterilizers used internally.

10. Intangible Assets

During the six-month period ended June 30, 2017, the Company acquired $0.2 million of new patents, licences, trademarks and software. For the entire year 2016, the Company invested $0.3 million in patents, trademarks and website.

Notes to the Interim Condensed Consolidated Financial Statements

Periods ended June 30, 2017 and 2016 (Unaudited, in thousands of US dollars, unless otherwise indicated)

11. Deferred Revenues

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

At the end of 2015, the Company recorded the $7.5 million received as deferred revenues which shall be recorded as revenue over the life of the agreement.

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

Current deferred revenues also include the remaining 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:

	June 30, 2017		December 31, 2016	
Issued and Paid	**Number of Common Shares**	**$**	Number of Common Shares	$
Balance at Beginning	**91,977,214**	**110,406**	83,324,789	98,817
Options Exercised	**765,490**	**617**	969,825	1,103
Warrants Exercised	**-**	**-**	7,682,600	10,486
Balance at the End	**92,742,704**	**111,023**	91,977,214	110,406

Each warrant was entitled to acquire one common share at a price of $1.43 (CAD$1.88) at any time prior to March 5, 2017. The warrants were subject to an accelerated expiry if, at any time after September 30, 2015, the published closing trade price of the common shares on the TSX was equal or greater than $1.52 (CAD$2.00) for any 10 consecutive trading days. As at January 5, 2016, the Company announced the acceleration of the expiry date to February 4, 2016 (Note 14) and 7,682,600 common shares were issued in 2016.

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

Notes to the Interim Condensed Consolidated Financial Statements

Periods ended June 30, 2017 and 2016 (Unaudited, in thousands of US dollars, unless otherwise indicated)

12. Share Capital (cont'd)

During the second quarter ended June 30, 2017, pursuant to the Company's Stock Option Plan, 765,490 stock options were exercised for an aggregate cash consideration of $0.4 million. During the year ended December 31, 2016, holders exercised 969,825 options for an aggregate cash consideration of $0.7 million.

Employee Stock Purchase Plan

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

Deferred Share Unit Plan

DSUs are awarded in connection with the 2016 Stock Incentive Compensation Plan. Under this plan, each eligible person receives a portion of his or her compensation in the form of DSUs. DSUs awarded pursuant to the Company's plan generally vest 50% at award date and the other 50% vest over a period of one year. DSUs are payable on the termination of service of the participant. The value of a DSU is determined based on the closing price of the Common Shares of the Company for the last trading day. The DSUs are repurchased by the Company and it 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 June 30, 2017, the number of DSUs awarded amounted to 0.1 million (0.1 million as at June 30, 2016). During the six-month period ended June 30, 2017, the Company recorded a compensation expense of $0.1 million ($0.1 million as at June 30, 2016) for its deferred share unit plan.

13. Reserve – Share-Based Compensation

The Company's Board of Directors adopted the 2016 Stock Incentive Compensation Plan which includes the award of stock options. The plan was approved by shareholders. The total number of common shares that can be issued under this plan for all forms of award from the Company's share capital was 9.3 million as at June 30, 2017, (8.0 million as at December 31, 2016). The options awarded pursuant to this plan generally vest over a three-year period and may be exercised within a maximum of 10 years from the date of award.

During the six-month period ended June 30, 2017, the Company awarded 0.6 million stock options, (1.2 million for the same period in 2016) at a weighted average exercise price of $2.08 or CAD$2.83 ($1.68 or CAD$1.86 for the same period in 2016). The weighted average fair value of these stock options was $1.36 or CAD$1.86 for the six-month period of 2017 ($0.66 or CAD$0.92 for the same period in 2016).

The share-based compensation expense pertaining to the award of options is amortized using the graded vesting method and represents a share-based compensation expense of $1.2 million for the six-month period ended June 30, 2017 ($0.4 million for the same period in 2016) presented in the Interim Condensed Consolidated Statements of Loss in the functions based on the option holders.

Notes to the Interim Condensed Consolidated Financial Statements

Periods ended June 30, 2017 and 2016 (Unaudited, in thousands of US dollars, unless otherwise indicated)

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

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

	June 30, 2017	December 31, 2016
Weighted Average Share Price	**$2.34**	$1.88
Exercise Price	**$2.34**	$1.88
Risk Free Interest Rate	**1.38%**	1.15%
Estimated Share Price Volatility	**61%**	59%
Expected Life	**8 years**	8 years
Expected Dividend Yield	**0%**	0%

The share-based compensation expense takes into account an estimate of the number of options and DSUs that will actually vest and be exercised. In addition, option pricing models such as the Black-Scholes model require highly subjective assumptions, including the assumed stock price volatility of the underlying shares. Option's volatility was estimated for the 2017 and 2016 awards on the basis of the historical volatility of the Company's share price prior to the date of award. Any change in the assumptions can materially affect the fair value estimates.

	Number	**June 30, 2017 Weighted Average Exercise Price $**	Number	December 31, 2016 Weighted Average Exercise Price $
Outstanding at beginning	**7,024,231**	**1.39**	4,993,568	0.89
Granted	**732,080**	**2.08**	3,516,137	1.88
Exercised	**(765,490)**	**0.55**	(969,825)	0.74
Expired	**(19,600)**	**1.97**	(73,203)	0.81
Forfeited	**(588,335)**	**2.29**	(442,446)	1.09
Outstanding at end	**6,382,886**	**1.54**	7,024,231	1.39
Exercisable at end	**2,488,669**	**0.99**	2,637,905	0.77

Notes to the Interim Condensed Consolidated Financial Statements

Periods ended June 30, 2017 and 2016 (Unaudited, 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 June 30, 2017:

	Outstanding Options		Exercisable Options	
Exercise Price	Number	Average Remaining Contractual Life (year)	Number	Average Remaining Contractual Life (year)
$0.00	144,467	Undetermined	102,802	Undetermined
$0.01 to $0.85	893,267	3.40	843,267	3.18
$0.86 to $1.69	2,852,402	6.94	1,506,724	5.55
$1.70 to $2.72	2,492,750	9.39	35,876	6.28
	6,382,886	7.41	2,488,669	4.72

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

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

14. Reserve – Warrants

	June 30, 2017		December 31, 2016	
	Number	**Weighted Average Exercise Price $**	Number	Weighted Average Exercise Price $
Outstanding at Beginning	**-**	**-**	8,977,200	1.33
Exercised	**-**	**-**	(7,682,600)	1.31
Expired	**-**	**-**	(1,294,600)	1.36
Outstanding at end	**-**	**-**	-	-
Exercisable at end	**-**	**-**	-	-

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$1.88) per share until their March 5, 2017 expiry.

Notes to the Interim Condensed Consolidated Financial Statements

Periods ended June 30, 2017 and 2016 (Unaudited, in thousands of US dollars, unless otherwise indicated)

14. Reserve - Warrants

On January 5, 2016, the Company exercised an option to accelerate the maturity of the warrants to February 4, 2016. Of the 8.5 million warrants subject to expiry acceleration as at January 5, 2016, 7.2 million were exercised and 1.3 million expired unexercised. The total proceeds from the 7.2 million warrants subject to an accelerated expiry associated with the 2015 financing equaled $9.7 million (CAD$13.5 million).

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

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

15. Additional Information Relating to Cash Flows

	Six months	
	2017	2016
	$	$
Changes in Non-Cash Operating Working Capital Items		
Decrease (Increase) in Assets		
Accounts Receivable	**1,703**	(3,079)
Inventories	**(764)**	(672)
Prepaid Expenses	**(78)**	4
Increase (Decrease) in Liabilities		
Accounts Payable and Accrued Liabilities	**(72)**	588
Warranty Provision	**323**	256
Current Deferred Revenues	**21**	394
Non-Current Deferred revenues related to the License Fee	**(436)**	(702)
	697	(3,211)
Warrants exercised receivable	**-**	(50)
Property, Plant and Equipement Transferred to Inventories	**26**	-
Inventories transferred to Property, Plant and Equipment	**-**	(155)
	723	(3,416)
Research and Development Tax Credits		
Received	**-**	199

Notes to the Interim Condensed Consolidated Financial Statements

Periods ended June 30, 2017 and 2016 (Unaudited, in thousands of US dollars, unless otherwise indicated)

16. Segmented Information

The Company is structured as a single operating segment.

	Second quarter		Six months	
Revenues	**2017**	2016	**2017**	2016
Canada and worldwide	**87**	98	**197**	167
United States	**4,543**	2,879	**8,644**	5,881
	4,630	2,977	**8,841**	6,048

	June 30, 2017			December 31, 2016		
	Inventories	**Property, Plant and Equipment**	**Intangible Assets**	Inventories	Property, Plant and Equipment	Intangible Assets
Canada and worldwide	**2,045**	**1,331**	**1,879**	1,638	1,069	1,836
United States	**422**	**1,610**	**18**	65	1,288	-
	2,467	**2,941**	**1,897**	1,703	2,357	1,836

For the second quarter of 2017, revenue from Getinge represented 98% of the Company's total revenues in conjunction with the Getinge Agreement (97% for the same period in 2016).

17. Loss per Share

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

	Second Quarter		Six months	
In thousands of US $, except per share amounts	**2017**	2016	**2017**	2016
	$	$	**$**	$
Net loss				
Basic and Diluted	**(2,254)**	(1,487)	(4,234)	(838)
Number of Shares				
Weighted Average Number of Outstanding Shares (in thousands)	**92,328**	91,036	92,162	89,794
Number of Shares				
Weighted Average Number of Outstanding Shares Diluted[(1)] (in thousands)	**92,328**[(1)]	91,036	92,162	89,794
Loss per Share				
Basic and Diluted	**(0.02)**	(0.02)	(0.05)	(0.01)
Comprehensive loss per Share				
Basic and Diluted	**(0.02)**	(0.02)	(0.05)	(0.01)

1) If the Company had a positive profit, the weighted average number of outstanding shares diluted would have been increased by 5.8 million as at June 30, 2017, (5.5 million as at June 30, 2016) for the calculation of the diluted net loss per share.

18. Approval of Financial Statements

The interim condensed consolidated financial statements were approved by the Board of Directors on August 1, 2017.