TSO_3 Quarterly Report

July – August - September

Q3-2013

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MESSAGE FROM THE PRESIDENT AND CEO

Dear Valued Shareholders,

As you know, the third quarter of 2013 came and went without receiving the regulatory clearance required to sell the STERIZONE® 125L+ Sterilizer in the US Market. Throughout the quarter, we have been in active discussions with the US Regulatory Agency, having completed two face-to-face meetings during the quarter with additional follow-up e-mails and conference calls. The pace of discussions has accelerated and we believe this quicker pace is indicative of positive progress towards obtaining the required clearances. As we are all aware, the US Government was "shut-down" for more than two weeks early in the fourth quarter. At this time, it is difficult to assess the impact of the "shut-down" on our file. Our "submission" is associated with "user-fees" and as such was kept "opened" during the shut-down, but the Agency was working at a reduced pace. The Company entered the year with a singular focus of obtaining clearance in 2013. We are still exchanging information and we keep focused and strive to deliver what is requested while placing one eye on launch details.

During the quarter, TSO_3 assumed full support for all Canadian users of the STERIZONE® 125L+ Sterilizer. These customers had purchased sterilizers in the past and had been supported by our previous channel partner, the 3M Company. These users have received additional training on the use and maintenance of the sterilizer and are now purchasing the required consumables directly from TSO_3. In addition to the service contracts that we inherited from the 3M Company, proposals for service agreements have been delivered to the current user group, and several accounts have already signed multiyear contracts. Customer satisfaction with their sterilizer and TSO_3's support is monitored closely and I am pleased to say it is growing. I am also pleased to announce that we continue discussions with existing and new accounts expressing interest in acquiring the STERIZONE® 125L+ Sterilizer.

During the third quarter, TSO_3 filed for additional patent protection covering innovations developed and incorporated into our new STERIZONE 80L® Sterilizer. These patents cover methods to further improve compatibility under differing load conditions for surgical instruments and accessories while maintaining sterile efficacy.

The STERIZONE 80L® Sterilizer: Preproduction sterilizers have been constructed in order to complete the testing required for commercialization. As a result, on October 17th and 18th, the new product was featured in the Company's exhibit at the annual meeting of the *Association Québécoise en Retraitement des Dispositifs Médicaux (AQRDM)* which was held in Boucherville, Québec. The feedback received was very positive for both the new and existing sterilizers.

Finally, as previously disclosed, the Company has been conducting a formal review of strategic alternatives. The conclusion of the process is intended to coincide with obtaining US clearance. The process continues and all options available to the Company remain open at this time. Decisions as to the Company's go-forward strategy will be taken with the interest of the shareholders in mind.

As we head to the fourth quarter, our focus remains the US regulatory clearance.

I wish to thank once again the dedicated employees of the Company, the Board of Directors for its guidance and you, the owners of the Company, for your ongoing support.

R.M. (Ric) Rumble
President and Chief Executive Officer

OVERVIEW

Who we are and what we do

TSO3 was founded in June 1998 in Québec City and currently employs 62 people. The Company's activities encompass research, development, commercialization and licensing of sterilization processes and accessories for heat-sensitive medical devices.

Initially, TSO3 developed a unique sterilization process based solely on ozone as the sterilizing agent. It offered superior sterile efficacy and lower operating costs and was considered a "green" technology. However, this first generation product provided limited instrument compatibility and a relatively long sterilization cycle.

The first generation sterilizer received regulatory clearances from both Health Canada and the United States Food and Drug Administration. It also received additional clearances expanding the field of application to a wider range of complex surgical instruments, attesting to the high sterilization efficacy of the TSO3 sterilization platform.

Despite its advantages, the first generation product did not succeed in addressing the overall market needs for fast turn-around times and high throughput and therefore, had limited commercial success achieving only 38 sales in North America by TSO3's own sales force over a period of five years.

A renewed approach

In 2009, the Company developed a new sterilizer, the STERIZONE® 125L+ Sterilizer utilizing hydrogen peroxide as the sterilant and ozone, as well as a *Dynamic Sterilant Delivery System*™. This new product provides both improved cycle time and material compatibility enabling increased throughput of a wide range of medical devices - including some of the most complex and delicate instruments used in Minimally Invasive Surgeries (MIS).

The STERIZONE® 125L+ Sterilizer offers efficacious and high-throughput, low-temperature sterilization for the high turnover volume requirements of the hospital's Central Sterile Department and enables the replacement of a combination of competitive sterilization methods.

Our business environment and the market drivers

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

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

Today, it is not uncommon to find sterile reprocessing of instruments conducted in three areas of the hospital. These are the Central Sterile Department (CS), the sub-sterile area of the 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 as such, need to be compatible with the sterilization process used. Traditionally, steam was used to sterilize surgical instruments.

Today's surgical suite is very different from those of the past. Presently, the trend continues towards the practice of minimally invasive surgery (MIS). Devices used in MIS are complex, expensive and delicate, and in most cases, do not tolerate the steam sterilization process – they require low temperature sterilization. These high-demand devices are a challenge for sterilization and are a major financial investment for hospitals.

Our competitive landscape

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

The low-temperature gas sterilization methods most commonly used today are Ethylene Oxide (EtO) and 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. However, EtO is a toxic gas which requires aeration time for desorption of the chemistry; this keeps expensive inventory of medical devices captive for periods of 16 to 30 hours. 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 playing an important role in a sub-segment of low temperature sterilization is Liquid Chemical Sterilization. This type of procedure is located directly in the OR as a just-in-time method to complement the CS Department's sterile production. The GI department is also a heavy user of Liquid Chemical Sterilization. Liquid systems are not terminal and require rinsing with extensively treated water that cannot be assured to be sterile. As such, instruments also cannot be assured to be sterile when used on a patient. These products each offer benefits to the customers, but none is a complete solution matching the customer need for high and cost effective throughput of complex and expensive medical devices. Therefore, customers have to purchase and support a combination of products to meet their daily requirements for sterile supplies.

THIRD QUARTER 2013 REVIEW AND RECENT ACTIVITIES

Regulatory Status

TSO_3 currently holds commercial clearance in Canada and Europe for the STERIZONE® 125L+ Sterilizer, as well as its accessories and consumables.

In January 2013, the Company announced that it had re-filed a new 510(k) with the US Regulatory Authorities on the basis of a single cycle sterilizer with improved claims.

Early in second quarter, the Company had a follow-up communication with the Agency. At that time, the Agency expressed the opinion that there was no predicate to the STERIZONE® 125L+ Sterilizer available on the market suggesting the file was eligible to the *de novo* process and approval.

After continued review of the current 510(k) file and based on an additional discussion which took place early during the third quarter, the Agency was able to conclude that the sterilizer could justify its Substantial Equivalence claim to a predicate device, allowing it to proceed through the 510(k) pathway for clearance. Additional communications with the Agency occurred later on during the same quarter and the Company is confident that it is on the right path towards market clearance of the STERIZONE® 125L+ Sterilizer in the United States.

New Product Development

The terminal sterilization solution developed by TSO$_3$ can be favorably applied to multiple segments of the low-temperature sterilization market. In order to add to its revenue stream, TSO$_3$ has also initiated the development of additional products based on its patent-pending STERIZONE® technology.

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

This program, as outlined in other communications, saw resources diverted from it during 2012 to support the work on the STERIZONE® 125L+ Sterilizer responses to regulatory issues. Since the Company had refiled last January 2013 for US regulatory approval, the work on the STERIZONE® 80L Sterilizer has gradually been reemphasized and the Company intends to submit that new product for global regulatory clearances once the US clearance on the STERIZONE® 125L+ Sterilizer has been obtained.

Recent Commercial Activities

The Company had initiated marketing in Canada of the STERIZONE® 125L+ Sterilizer in 2011 under a distribution agreement with the 3M Company. The sterilizer was then distributed by the 3M Company under the brand name 3M™ Optreoz™ 125- Z sterilizer. On June 15, 2012, the Company issued a notice to the 3M Company terminating the distribution agreement. Further to that notice, the 3M Company disputed that TSO$_3$ had the right to terminate the distribution agreement. At the end of the second quarter 2013, TSO$_3$ announced that it had settled the ongoing dispute over the termination rights and that the 3M Company would no longer challenge its termination. The settlement of that dispute allows TSO$_3$ to seek other strategic alternatives or go direct to the market.

Since the termination of the 3M agreement, sales have been essentially reduced to (1) services delivered to support the older 125L Ozone Sterilizer, whose installed base was seriously eroded as a result of the upgrade program successfully completed by TSO$_3$ in

Q2-2012, and (2) consumables for the STERIZONE® 125L+ Sterilizer (formerly marketed under the brand name 3M™ Optreoz™ 125-Z Sterilizer). Since the settlement of its dispute with the 3M Company, TSO_3's has started servicing the current Canadian installed base of STERIZONE® 125L+ Sterilizer and has initiated limited sales activity in Quebec and Eastern Ontario.

Strategic Alternatives

In the second quarter, the Company announced that, while it is pursuing the US regulatory approval for the STERIZONE® 125L+ Sterilizer as well as continuing commercial negotiations on a non-exclusive basis, the Company had initiated a formal process to assess the range of strategic alternatives available to the Company and engaged Desjardins Capital Markets to assist in this process. These steps are intended to maximize shareholder value post-regulatory clearance.

2013 Focus

- Obtain United States regulatory clearance for the STERIZONE® 125L+ Sterilizer;
- Secure the right agreement and the right partner to achieve both the global market potential for the STERIZONE® 125L+ Sterilizer and new product currently in development;
- File for regulatory clearance for the second product - the STERIZONE® 80L Sterilizer - targeting the need for a smaller device.

MANAGEMENT DISCUSSION AND ANALYSIS

The Management discussion and analysis (MD&A) is intended to help the readers to assess, through the eyes of management, the financial position and results of operations of TSO_3 ("TSO_3" or the "Company") for the three and nine-month periods ended September 30, 2013 and to compare them with the three and nine-month periods ended September 30, 2012. This information is dated November 8, 2013 and should be read in conjunction with the condensed unaudited interim Financial Statements and the accompanying notes. Unless specified otherwise, all amounts are stated in Canadian dollars.

The financial information contained in this MD&A and in the condensed unaudited interim Financial Statements has been prepared in accordance with the International Financial Reporting Standards ("IFRS").

The condensed unaudited interim 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. Additional information about the forward-looking information as well as the associated risks and uncertainties can be found on pages 16 to 24 of the report.

SUMMARY OF RESULTS

Periods ended September 30 (Unaudited, IFRS Basis)

	THIRD QUARTER		NINE MONTHS	
	2013	2012	**2013**	2012
	$	$	**$**	$
Revenues				
Sales	**42,854**	66,236	**156,168**	1,103,782
License Revenue	**-**	-	**-**	1,690,971
Total Revenues	**42,854**	66,236	**156,168**	2,794,753
Expenses				
Supply Chain	**207,604**	320,714	**739,055**	1,531,193
Customer Support and Communications	**171,474**	150,944	**429,966**	471,596
Research and Development	**949,075**	1,020,923	**2,793,135**	3,062,125
Administrative	**763,743**	779,313	**2,317,549**	2,528,691
Settlement Cost	**(69,369)**	-	**1,854,029**	-
Financial Income	**(47,143)**	(57,979)	**(143,273)**	(129,893)
Financial Costs	**16,703**	12,669	**20,686**	26,665
Total Expenses	**1,992,087**	2,226,584	**8,011,147**	7,490,377
Net Loss before Income Taxes	**(1,949,233)**	(2,160,348)	**(7,854,979)**	(4,695,624)
Income Taxes	**-**	-	**-**	-
Net Loss and Total Comprehensive Loss attributable to Shareholders	**(1,949,233)**	(2,160,348)	**(7,854,979)**	(4,695,624)
Basic and Diluted Net Loss per Share	**(0.03)**	(0.03)	**(0.11)**	(0.07)
Weighted Average Number of Shares Outstanding	**72,934,915**	65,888,182	**71,314,103**	62,932,071

RESULTS ANALYSIS

In the following paragraphs, the Company discusses the variations of certain accounts within the third quarter of 2013 and the third quarter of 2012.

TOTAL REVENUES

Sales

In Q3-2013, sales amounted to $42,854, as compared to $66,236 in Q3-2012. Since the termination of the distribution agreement with the 3M Company on June 15, 2012, the Company has concentrated its efforts on securing the required regulatory clearance to market its products in the United States. Sales in 2013 are made of sales of consumable supplies and services in connection with the installed base of sterilizers.

For the nine-month period ended September 30, 2013, sales were $156,168, as compared with $1,103,782 during the same period in 2012. The higher sales in 2012 were achieved in the first two quarters of 2012 when the Company was shipping sterilizers in connection with its upgrade program and was still making sales to the 3M Company.

License Revenue

Until June 2012, TSO_3 was recognizing revenue over the expected initial term of its agreement with the 3M Company by amortizing the payments it had received under that agreement. In June 2012, as a result of the termination of the 3M agreement, all unamortized license payments were recognized as revenue. Therefore, since the end of the second quarter of 2012, there was no license revenue.

The $1,690,971 license revenues earned during the nine-month period ended September 30, 2012 were primarily the result of the recognition, in June 2012, of the unamortized balance of $1,585,833 in deferred license revenues.

NET LOSS

In Q3-2013, the Company experienced a loss of $1,949,233 ($0.03 per share), as compared to $2,160,348 ($0.03 per share) in Q3-2012. The decrease in the loss is primarily due to lower supply chain and research and development expenses.

In the nine-month period of 2013, the net loss was $7,854,979 ($0.11 per share), as compared to $4,695,624 ($0.07 per share) for the same period in 2012. The increase in the loss is explained by two non-recurring items: (1) the recognition as revenue in June 2012 of $1,585,833 in unamortized license payments received in connection with the distribution agreement, and (2) the $1,854,029 settlement cost with the 3M Company incurred in June 2013.

When the nine-month loss is adjusted to remove the impact of these two items related to the termination of the 3M Agreement, the adjusted loss is $6,000,950 ($0.08 per share) in 2013, down from $6,281,454 ($0,10 per share) in 2012.

EXPENSES

Supply Chain

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

For the three-month period ended September 30, 2013, the Supply Chain expenses amounted to $207,604, as compared to $320,714 for the same period in 2012. The variation is primarily due to delays in replacing departing personnel.

In the nine-month period of 2013, Supply Chain expenses amounted to $739,055, as compared to $1,531,193 for the same period in 2012. This reduction in expenses is primarily due to the reduction in sales which has led to reduced sourcing activities.

Customer Support and Communications

For the quarter ended September 30, 2013, the customer support and communication expenses amounted to $171,474, as compared to $150,944 expense incurred during the same period in 2012. This increase reflects the customer transition plan whose implementation was initiated in Q3-2013.

For the nine-month period ended September 30, 2013, these expenses amounted to $429,966, as compared to $471,596 for the corresponding period in 2012. The decrease was primarily the result of fewer technical support activities since the termination of the distribution agreement with the 3M Company.

Research and Development

Starting in Q2-2012, there has been a reallocation of research and development resources away from new product development and towards work related to the filings with the US regulatory agency. Further to the refiling of its 510(k) submission in January 2013, the Company re-emphasized work related to new products development.

For the quarter ended September 30, 2013, research and development expenses were $949,075, as compared to the amount of $1,020,923, incurred during the third quarter of 2012. For the nine-month period ended September 30, 2013, these expenses amounted to $2,793,135, as compared to $3,062,125 in 2012.

Those reductions were primarily due to (1) fewer experiments and compatibility studies in 2013 than in 2012, and (2) refundable tax credits provisioned in 2013 while there were no such provision made in 2012. At the same time, other expenditures were increasing as a result of additional work performed in 2013 in connection with the optimization of the new products and the protection of the Company’s intellectual property.

Administrative

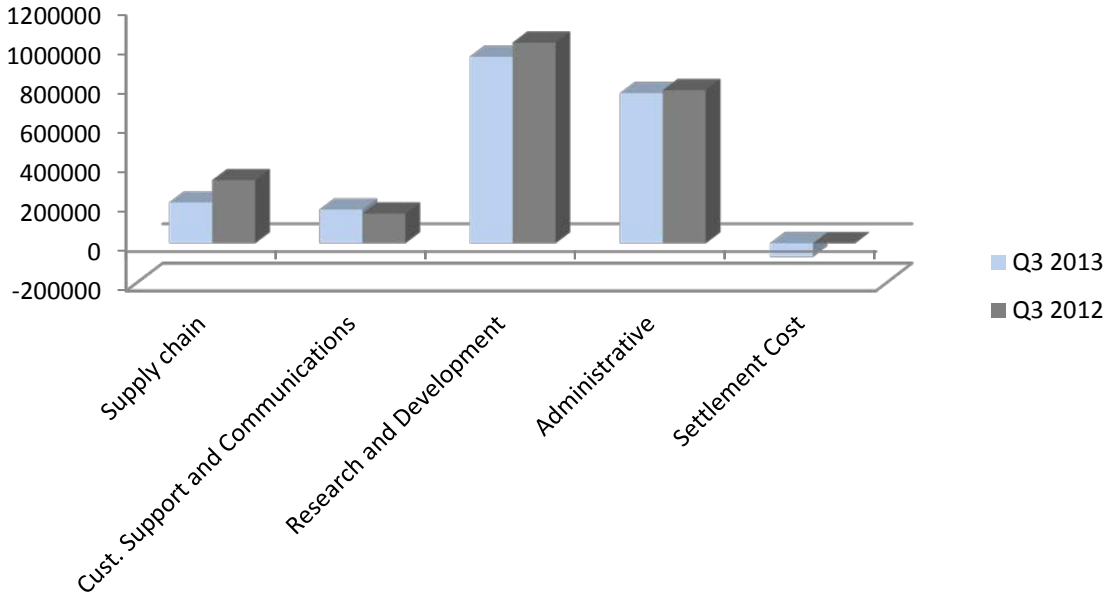
For the quarter ended September 30, 2013, the administrative expenses amounted to $763,743, or about the same as the $779,313 expenses incurred during the third quarter of 2012.

For the nine-month period ended September 30, 2013, these expenses amounted to $2,317,549, as compared to $2,528,691 for the corresponding period in 2012. Several items were smaller in 2013; the largest decreases were in the professional fees and the incentive-based compensation.

Settlement Cost

The Company has recorded a $1,854,029 cost in connection with the settlement that it reached with the 3M Company. TSO_3 has always maintained, and still maintains, that both parties had the right to terminate the distribution agreement signed in December 2009. However, the 3M Company was disputing that right and a protracted litigation would have caused the Company to incur legal expenses and may have impacted its ability to obtain the right terms with a potential strategic partner. Therefore, the Company decided to incur the Settlement Cost in order to achieve a definitive conclusion of any dispute over the terminated agreement.

The Settlement Cost was a one-time payment of USD$2,000,000 (C$2,110,000) partially offset by the return of inventory held by the 3M Company and increased by the write-off of certain receivables in the amount of $16,195. The Company originally valued the returned inventory at $202,797 but re-assessed it by $69,369 to $272,166 during Q3-2013 once the items received and some of the refurbishment expenditures incurred.



Financial Income

For the quarter ended September 30, 2013, financial income totaled $47,143, as compared to $57,979 in 2012.

For the nine-month period ended September 30, 2013, these revenues amounted to $143,273, as compared to $129,893 for the corresponding period in 2012.

Differences in investment amounts and interest rates explain the variation from 2012 to 2013.

FINANCIAL POSITION ANALYSIS

(Unaudited, IFRS Basis)

	September 30 2013 $	December 31 2012 $
Cash and Cash Equivalents	**8,832,692**	7,758,103
Short-term Investments	**2,459,434**	5,049,087
Accounts Receivable	**928,136**	1,029,265
Inventories	**1,450,693**	1,216,721
Property, Plant and Equipment	**1,161,581**	1,208,394
Intangible Assets	**3,055,600**	3,034,213
Accounts Payable and Accrued Liabilities	**864,817**	842,867
Warranty Provision	**5,000**	62,032
Deferred Revenues (Current and Non-Current)	**94,168**	103,035
Equity	**17,009,170**	18,427,493

Liquid Assets

As at September 30, 2013, cash, cash equivalents and short-term investments amounted to $11,292,126, as compared to $12,807,190 as at December 31, 2012. The variation is primarily the result of the stock issue closed on March 4, 2013 as well as the absorption of the negative cash flow for the first three quarters of fiscal 2013, which also includes the US$2,000,000 cash payment to the 3M Company.

Accounts Receivable

On September 30, 2013, the accounts receivable were $928,136, down from $1,029,265 on December 31, 2012. Substantially all of the receivables on those dates were made up of amounts recoverable from governments for research and development tax credits and input tax credits for sale taxes.

Inventories

As at September 30, 2013, inventories amounted to $1,450,693, as compared with $1,216,721 on December 31, 2012.

	September 30 2013 $	December 31 2012 $
Raw Materials	**938,270**	874,635
Work in Progress	**347,033**	111,470
Finished Goods	**165,390**	230,616
	1,450,693	1,216,721

On June 30, 2013, the Company entered into a Settlement Agreement with the 3M Company in order to reach a definitive conclusion on their dispute over the distribution agreement terminated by TSO_3 on June 15, 2012. As part of that agreement, the Company has paid an amount of US$ 2,000,000 to the 3M Company. That amount included payment for inventory held by the 3M Company and returned to TSO_3 as part of the Settlement Agreement. The inventory restocked by the Company included a net amount of $39,831 recorded as raw materials, $212,323 in sterilizers as work in progress and $20,012 in supplies and accessories accounted for in finished goods inventory.

Other than for the $272,166 in inventory returned as part of the 3M settlement, the aggregate inventory is about the same on September 30, 2013 as it was on December 31, 2012. Excluding the inventory movement due to the inventory return, (1) raw materials inventory has marginally increased in the first three quarters of 2013 as a result of the Company receiving raw materials and components ordered prior to the termination of the 3M Agreement, and (2) the finished goods inventory had decrease as a result of using for research and development purposes $128,015 in sterilizers ready-for-sale.

Property, Plant and Equipment

During the first nine months of 2013, the Company added $320,778 to its Property, Plant and Equipment, as compared to $420,831 during the same period in 2012. The bulk of these expenditures consisted in sterilizers and medical devices used as part of research and development activities.

Intangible Assets

During the first nine months of 2013, the Company capitalized $249,499 in intangible assets, as compared to $84,631 for the same period in 2012. These expenditures were for the most part made in connection with patents filed by the Company to improve the protection of its intellectual property.

Accounts Payable and Accrued Liabilities

As at September 30, 2013, accounts payable and accrued liabilities amounted to $864,817 or about the same as their $842,867 level as at December 31, 2012.

Warranty Provision

The warranty provision decreased from $62,032 on December 31, 2012 to $5,000 on September 30, 2013. This reduction is due to the expiry of most of the warranties on sterilizers sold.

Deferred Revenues

As at September 30, 2013, current and non-current deferred revenues amounted to $94,168, as compared to $103,035 as at December 31, 2012.

Deferred revenues represent the prepaid portion of service contracts on the installed base of STERIZONE® 125L+ sterilizers and on the 125L Ozone Sterilizers commercialized by the Company up to the beginning of 2010.

Shareholders' Equity

As at September 30, 2013, Shareholders' Equity amounted to $17,009,170, as compared with $18,427,493 as at December 31, 2012. Most of the variation is the net result of (1) an increase due to the net cash proceeds of $6,234,281 from the equity issue closed on March 4, 2013, (2) the absorption of the operating deficit for the first three quarters of 2013, and (3) the Settlement Cost with the 3M Company.

CASH FLOWS ANALYSIS

(Unaudited, IFRS Basis)

	NINE MONTHS	
	2013	2012
	$	$
Operating Activities	**(7,358,398)**	(4,580,405)
Investing Activities	**2,133,916**	(2,655,892)
Financing Activities	**6,299,071**	8,208,448

Operating Activities

Cash absorbed by Operating Activities amounted to $7,358,398 for the nine-month period ended September 30, 2013, as compared to $4,580,405 for the corresponding period in 2012.

The higher amount of cash absorbed by operations during 2013 is explained by (1) the payment of US$ 2,000,000 (C$ 2,110,000) as part of its settlement with the 3M Company in June 2013, (2) the fact that, in 2012, the net reduction in receivables, inventories and payables generated $1,327,072 while the same items absorbed $110,893 in 2013, and (3) an operating loss lower in 2013 than in 2012 when the loss is adjusted for non-recurring items related to the termination of the distribution agreement with the 3M Company.

Investing Activities

For the nine-month period ended September 30, 2013, cash flows generated by the Investing Activities amounted to $2,133,916 while these activities absorbed an amount of $2,655,892 during the same period in 2012.

The variation is almost equally caused by the monetization of short-term financial investments during 2013 and the increase in expenditures on patents.

Financing Activities

For the nine-month period ended September 30, 2013, cash flows from Financing Activities amounted to $6,299,071, as compared to $8,208,448 for the same period in 2012.

Both of these amounts primarily represent the net cash proceeds from the equity issues closed in 2012 and 2013.

SUMMARY OF QUARTERLY RESULTS

(Unaudited, IFRS Basis)

This table shows the quarterly sales, net loss and net loss per share.

($000 except loss/share)			**2013**				2012		2011
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Sales	**43**	37	76	59	66	310	728	1,257	1,100
License Revenue	**-**	-	-	-	-	1,639	52,5	52,5	52,5
Settlement Cost	**(69)**	1,923	-	-	-	-	-	-	-
Net Loss	**1,949**	3,806	2,100	1,100	2,160	526	2,009	1,398	2,261
Net Loss per Share (basic and diluted)	**0.03**	0.05	0.03	0.02	0.03	0.01	0.03	0.02	0.04

SEGMENTED INFORMATION

The Company is structured as a single operating segment.

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

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

	THIRD QUARTER				NINE MONTHS			
	2013		2012		**2013**		2012	
	$	**%**	$	%	**$**	**%**	$	%
Canada	**34,500**	**81**	21,345	32	**123,515**	**79**	914,499	83
Rest of the world	**8,354**	**19**	44,891	68	**32,653**	**21**	189,283	17
	42,854	**100**	66,236	100	**156,168**	**100**	1,103,782	100

Up until June 15, 2012, the Company earned a material part of its revenues under the now-terminated distribution agreement with the 3M Company. Shipments to that client were made in Canada and elsewhere in the world.

License revenue recorded up until June 2012 in connection with the terminated distribution agreement with the 3M Company is allocated to the geographic area “Rest of the world”.

CONTRACTUAL COMMITMENTS

As of September 30, 2013, the contractual commitments for future fiscal years are as follows:

	2014	2015	2016	2017	2018
	$	$	$	$	$
Operating leases and services contracts	122,000	13,000	9,000	8,000	1,000

OFF-BALANCE SHEET ARRANGEMENT

Other than disclosed under the heading “Contractual Commitments” and purchase orders issued in the normal course of business, the Company made no off-balance sheet arrangement during the third quarter of 2013.

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 on profits. The related deferred income tax assets would be recorded in the financial statements only when the Company concludes that these losses will probably be materialized by shielding profits from taxes, or otherwise. If the Company had reached this conclusion on September 30, 2013, an amount of $24,600,000 in tax assets would have been recorded based on an effective rate of 15% for federal taxes and 11.9% for provincial taxes.

CAPITAL RESOURCES

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

In the past, the Company has financed its activities primarily through equity issues and, to a lesser extent, through investment tax credits. 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.

For the nine-month period ended September 30, 2013, the average monthly cash burn rate was $868,237, as compared with $534,122 in 2012. A significant part of the increase in the burn rate in 2013 is due to the US$ 2,000,000 settlement cost paid to the 3M Company. When adjusted for that item, the average monthly burn rate in 2013 is reduced to $633,793 or $99,671 more than in 2012. The lower burn rate in 2012 was primarily caused by a net reduction of $1,327,072 in operating working capital (receivables, inventories and payables). The cash burn rate for 2013 was not materially affected by the variation in operating working capital and is more in line with the monthly average of about $750,000 experienced in 2011 and 2012.

As at September 30, 2013, the Company had $11,292,126 in liquidities (cash, cash Equivalents and Short-Term Investments). At a burn rate of $750,000 per month, these liquidities would be sufficient to finance the Company's activities until the end of 2014.

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

As at September 30, 2013, the number of outstanding shares was 73,000,906.

ACCOUNTING POLICIES

See note 2 and 3 of our condensed unaudited interim financial statements for the third quarter ended September 30, 2013 for a detailed presentation of accounting policies, critical accounting judgments, key source of estimation uncertainty and futures accounting changes.

RISK FACTORS

The Company has identified certain risks and uncertainties that may have a material adverse effect on its business, results of operations, or financial condition. In any such case, the market price of the 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 may not be exhaustive but investors should carefully consider them before purchasing securities of the Company. Accordingly, the Company does not, and nor should shareholders of the Company or purchasers of Common Shares, rely on forward-looking statements as a prediction of actual results. In addition, investors should understand that the Company operates in a rapidly changing business, economic

and regulated environment, and new risk factors emerge from time to time. The risks described below are not the only ones the Company faces as additional risks not currently known to the Company or believed to be immaterial may also significantly impair its business operations.

Limited Revenue History and a History of Previous Losses

Since its inception in June 1998, TSO_3 has not yet generated significant revenues from the sale of its products except in the second half of 2011 and the first half of 2012. Until now, the Company has spent its resources in order to develop new products, submit and in certain jurisdictions, obtain, marketing clearances and conduct limited commercial activities. Additional investments in research and development are required to support the application for clearance in the United States, and to continue the development of new products based on the Company's technology. It is unknown whether any of TSO_3's current and future products will obtain the necessary clearances to be marketed in all major jurisdictions, including the United States.

Some of the products currently being developed may not be commercially available for some years to come or may be discontinued altogether, for reasons not within the control of the Company, and this may create difficulties or delays in operations or marketing efforts undertaken by TSO_3 as well as potential difficulties in achieving manufacturing and purchasing efficiencies.

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

Regulatory Approvals

Sterilizers are subject to regulatory clearances within individual markets. As such, they are evaluated for compliance with established consensus standards. When a new technology is involved, there is no such standard. In such a case, a manufacturer must identify an existing "predicate" device from which to compare the new technology. The Company has effectively demonstrated such "predicate" devices in the past with its first generation sterilizer.

The Company has obtained clearance in Canada and in the European Community for its new generation STERIZONE® 125L+ Sterilizer. While these are important markets and these clearances can be used in other countries, clearance in the United States of America is the most important clearance to obtain due to the size of that market and its importance in terms of practice. The Company first filed for clearance in the USA in December 2009. The predicate device then utilized was found by the US Regulatory Authorities not substantially equivalent to the STERIZONE® 125L+ Sterilizer. The Company refiled using another predicate device in June 2011. Since then, the Company has answered numerous questions from the US Regulatory Authorities. In response to these questions, in December 2012, the Company announced that it was adopting a simplified strategy in its application for clearance. In January 2013, the Company announced that it had refiled with the US Regulatory Authorities on the basis of a single cycle sterilizer with improved claims.

Although the Company is confident to obtain that clearance, there is no guarantee that such clearance will be obtained. Failure to obtain clearance in the United States would significantly reduce the eventual value of the Company's technology and its attractiveness for potential distributors.

Marketing and Distribution Challenges

Worldwide distribution of the Company's products critically depends on its channel partners, and the conditions of distribution agreements with such channel partners. Until June 15, 2012, TSO_3 had a distribution agreement with the Infection Prevention Division of the 3M Company for the marketing, sale, distribution and service of its STERIZONE® 125L+ Sterilizer. On June 15, 2012, the Company terminated its distribution agreement with the 3M Company, its channel partner at that time. On August 7, 2012, the Company announced that it had signed a letter of intent with Getinge Infection Control AB to initiate the negotiation for a worldwide distribution agreement. Since then, negotiations have been taking place but no final agreement has been reached. In June 2013, the Company also announced that it had hired an investment banking firm to help it evaluate its strategic alternatives.

There is no guarantee that an agreement with the right conditions will be reached with Getinge, or other potential partners. Although a worldwide distribution agreement is desirable from a marketing perspective, failure to obtain the US Regulatory Authorities clearance in a timely fashion may force the Company to enter into distribution agreements specific to certain territories.

To the extent that the Company relies on third parties, such as the 3M Company until June 15, 2012, to market and distribute its products, the commercial success of such products may become somewhat beyond the Company's control. Moreover, there can be no assurance that any agreement with these third parties will be beneficial to the Company.

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 reduce to a minimum the frequency and duration that the devices are exposed to hydrogen peroxide and ozone. Nevertheless, oxidization can produce several effects, depending on the material. In order to fully establish the true commercial value of its sterilization process, the Company must continue to demonstrate the compatibility of its technology with a wide range of medical instruments. Even though the tests and studies undertaken to date by TSO_3 have shown that its STERIZONE® Sterilization Process is compatible with the majority of medical instruments currently used in the hospital environment, the Company must maintain ongoing studies in this respect.

Intellectual Property and Technologies

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

Although the Company already owns certain pending applications or issued patents, there is no guarantee that such patents are valid, that the pending applications will be allowed or that the Company will develop other patentable technologies in the future. Moreover, there can be no assurance that a patent granted to the Company or in respect of which the Company holds a license will make the related product more competitive, that third parties will not challenge the protection provided 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 this litigation could adversely affect the business of the Company. Further, should the Company not prevail in an infringement lawsuit brought against it, the Company may have to pay substantial damages, and could be required to stop the infringing activity or obtain a license to use the patented technology. Such royalty or licensing agreements, if required, may not be available on acceptable terms, if at all. In the event a claim is successful against the Company and the Company cannot obtain a license to the relevant technology on acceptable terms, license a substitute technology or redesign potential products to avoid infringement, the business, financial condition and operating results of the Company could be materially adversely affected. Loss of patent protection could lead to new competition for the Company's current and future products, which could materially and adversely affect the financial prospects for the Company's products.

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

Dependency on Key Personnel

TSO_3 believes that its success will continue to depend on its ability to attract and retain qualified managers and other key personnel. Losing a key employee could have a major negative impact on TSO_3. The Board of Directors and Management have reviewed in 2012 the Company's succession plan for all senior level management.

Management of Business Growth

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

Competition Risks

The Company's products face intense competition. Most of the Company's competitors have greater financial resources and marketing capabilities than TSO_3 and, assuming that the Company succeeds in getting a new channel partner, several of the competitors may also have greater resources and capabilities that a new channel partner may make available to the commercial venture. TSO_3's competitors and potential competitors may succeed in developing products and processes that are more effective and less expensive to use than any products or processes the Company may develop or license, or that may render TSO_3's products or processes obsolete. The high level of competition in the sterilization industry could force the Company to reduce the price at which it sells its products.

Product Liability Issues

In the health sector, lawsuits, often claiming substantial damages, are becoming increasingly common. In particular, in the United States, lawsuits are filed by patients, employees or beneficiaries against healthcare providers, as well as authorities operating and managing hospitals in the private and public sectors. During these proceedings, claimants could allege and blame the non-sterility of certain instruments or defective functioning of products sold, installed or derived from TSO_3 technology. To address the problems associated with such lawsuits, the Company is maintaining insurance coverage that it considers adequate and that it reviews annually with its insurance advisors.

Need for Additional Capital and Liquidity

The Company faces a number of challenges in its business, including the fact that it currently has limited commercial activities while it awaits market clearance in the United States, the largest potential market for its products, and it still has one major product under development. This creates liquidity needs that must be funded through various rounds of investment capital. The ability by the Company to raise cash so as to maintain sufficient cash reserves to ensure continuation of activities may be adversely impacted by global political and economic conditions and by other risk factors identified in this MD&A. There can be no assurance that the Company will continue to be able to obtain on a timely basis sufficient funds to provide adequate liquidity and to finance the operating and capital expenditures necessary to overcome challenges and support its business strategy while its cash flows from operations are insufficient to support its operations.

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

Challenging Global Political and Economical 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 debt securities markets and financial markets, exchange rates, the debt crisis affecting certain European countries, volatility of the subprime mortgage market in the United States and related markets, the tightening of liquidity in various financial markets, and the strength of the regional and international economies.

All of these factors affect the business and economic conditions in a given geographic region and, consequently, affect the demand for the products developed or being developed by the Company. Currency rate movements in the United States and other countries where the Company seeks to market or distribute its products may significantly impact the Company's business prospects and future earnings as a result of foreign currency translation adjustments. The monetary policies of the Bank of Canada, the U.S. Federal Reserve and the European monetary authorities as well as other interventionist measures in capital markets by public organizations have repercussions on economic conditions and therefore on the Company's business prospects.

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

Financial Instruments

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

Market risk

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

Interest rate risk

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

As at September 30, 2013, if interest rates on that date had been 0.5% lower, and all other variables held constant, the net loss and total comprehensive loss for the period would have been $3,982 higher, arising mainly as a result of an increase in the fair value of fixed rate financial assets classified as fair value through profit or loss. If the interest rates on that date had been 0.5% higher, all other variables being held constant, the net loss and total comprehensive loss for the period would have been $3,956 lower, arising mainly as a result of a decrease in the fair value of fixed rate financial assets classified as fair value through profit or loss. The net loss therefore has a similar sensitivity to interest rate increases and interest rate decreases.

Credit risk

The use of financial instruments can create a credit risk in which there is 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 accounts receivable, cash and cash equivalents and short-term investments.

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 agency. This policy sets limits to the size of exposures based on the credit risk of the counterparties.

As at September 30, 2013, the Company's investments were rated by two recognized agencies, and were within the credit metrics 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 September 30, 2013, there was no single investment that exceeded the limit required under the Company's Investment Policy except a bank deposit that exceeded such limit by a non material amount.

Liquidity risk

Liquidity risk represents the possibility that the Company would be unable to monetize its financial instruments so as to meet 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 permanent and sufficient liquidity to meet current and future financial obligations, under both normal and exceptional circumstances. The funding strategies used to manage this risk include turning to capital markets to carry out issues of securities.

Currency risk

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

As of September 30, 2013, if the Canadian dollar had weakened 10 percent against the US dollar with all other variables held constant, the net loss and total comprehensive loss for the period would have been $15,537 lower. Conversely, if the Canadian dollar had strengthened 10 percent against the US dollar with all other variables held constant, the net loss and total comprehensive loss for the period would have been $15,537 higher.

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

DISCLOSURE AND INTERNAL CONTROLS

In accordance with National Instrument 52-109 of the Canadian Securities Authorities, the Corporation 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 Corporation has been made known to them and that (2) information required to be disclosed in the Corporation's filings is recorded, processed, summarized and reported within the prescribed time periods under securities legislation.

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

Evaluation of DC&P and ICFR

An evaluation of the design of DC&P and ICFR was carried out under the supervision of the CEO and the CFO. 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 by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission on Internal Control – Integrated Framework and in connection with the preparation of its interim 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 interim reporting for the interim period ended September 30, 2013.

Modification of ICFR

No changes were made to our internal controls over financial reporting that occurred during the quarter ended September 30, 2013 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

FORWARD LOOKING STATEMENTS

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

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

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

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

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

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

The Management, Discussion and Analysis has been prepared as at November 8, 2013. 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.

Benoît Deschamps
Vice President of Finance and
Chief Financial Officer

November 8, 2013

CONDENSED UNAUDITED INTERIM FINANCIAL STATEMENTS

For the three and nine-month periods ended September 30, 2013 and 2012

Notice from Management

The following condensed unaudited interim financial statements have been prepared on an IFRS basis

CONDENSED INTERIM STATEMENTS OF LOSS AND TOTAL COMPREHENSIVE LOSS (Unaudited)

Periods ended September 30, 2013 and 2012
(In Canadian $)

		THIRD QUARTER		NINE MONTHS	
		2013	2012	**2013**	2012
	Notes	**$**	$	**$**	$
Revenues					
Sales	21	**42,854**	66,236	**156,168**	1,103,782
License Revenue	13	**-**	-	**-**	1,690,971
Total Revenues		**42,854**	66,236	**156,168**	2,794,753
Expenses	6				
Supply Chain		**207,604**	320,714	**739,055**	1,531,193
Customer Support and Communications		**171,474**	150,944	**429,966**	471,596
Research and Development		**949,075**	1,020,923	**2,793,135**	3,062,125
Administrative		**763,743**	779,313	**2,317,549**	2,528,691
Settlement Cost	4	**(69,369)**	-	**1,854,029**	-
Financial Income	5	**(47,143)**	(57,979)	**(143,273)**	(129,893)
Financial Costs	5	**16,703**	12,669	**20,686**	26,665
Total Expenses		**1,992,087**	2,226,584	**8,011,147**	7,490,377
Net Loss before Income Taxes		**(1,949,233)**	(2,160,348)	**(7,854,979)**	(4,695,624)
Income Taxes	19	**-**	-	**-**	-
Net Loss and Total Comprehensive Loss attributable to Shareholders		**(1,949,233)**	(2,160,348)	**(7,854,979)**	(4,695,624)
Basic and Diluted Net Loss per Share	22	**(0.03)**	(0.03)	**(0.11)**	(0.07)

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

CONDENSED INTERIM STATEMENTS OF CHANGES IN EQUITY (Unaudited)

(In Canadian $)

	Notes	Share Capital $	Reserve – Share-based Compen-sation $	Reserve – Warrants $	Deficit $	Total $
Balance at January 1, 2012		89,920,532	3,533,130	-	(77,759,899)	15,693,763
Issuance of Share Capital and Warrants	14	8,694,000	-	276,000	-	8,970,000
Options Exercised	14	96,121	(39,866)	-	-	56,255
Share-based Compensation	15	-	241,281	-	-	241,281
Compensation to Underwriters	16	(117,300)	-	117,300	-	-
Share Issue Expenses	14	(817,807)	-	-	-	(817,807)
Net Loss for the Period		-	-	-	(4,695,624)	(4,695,624)
Balance at September 30, 2012		97,775,546	3,734,545	393,300	(82,455,523)	19,447,868
Balance at October 1, 2012		97,775,546	3,734,545	393,300	(82,455,523)	19,447,868
Share-based Compensation	15	-	80,427	-	-	80,427
Share Issue Expenses	14	(828)	-	-	-	(828)
Net Loss for the Period		-	-	-	(1,099,974)	(1,099,974)
Balance at December 31, 2012		97,774,718	3,814,972	393,300	(83,555,497)	18,427,493
Balance at January 1, 2013		97,774,718	3,814,972	393,300	(83,555,497)	18,427,493
Issuance of Share Capital	14	7,000,000	-	-	-	7,000,000
Options Exercised	14	100,922	(32,160)	-	-	68,762
Transfer to Deficit	16	-	-	(276,000)	276,000	-
Share-based Compensation	15	-	137,585	-	-	137,585
Compensation to Underwriters	16	(77,000)	-	77,000	-	-
Share Issue Expenses	14	(769,691)	-	-	-	(769,691)
Net Loss for the Period		-	-	-	(7,854,979)	(7,854,979)
Balance at September 30, 2013		104,028,949	3,920,397	194,300	(91,134,476)	17,009,170

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

CONDENSED INTERIM STATEMENTS OF FINANCIAL POSITION (Unaudited)
(In Canadian $)

	Notes	As at September 30, 2013 $	As at December 31, 2012 $
Current Assets			
Cash and Cash Equivalents	7	**8,832,692**	7,758,103
Short-term Investments	7	**2,459,434**	5,049,087
Accounts Receivable	8	**928,136**	1,029,265
Inventories	9	**1,450,693**	1,216,721
Prepaid Expenses		**85,019**	139,644
		13,755,974	15,192,820
Non-current Assets			
Property, Plant and Equipment	10	**1,161,581**	1,208,394
Intangible Assets	11	**3,055,600**	3,034,213
		4,217,181	4,242,607
		17,973,155	19,435,427
Current Liabilities			
Accounts Payable and Accrued Liabilities		**864,817**	842,867
Warranty Provision	12	**5,000**	62,032
Deferred Revenues	13	**84,230**	55,093
		954,047	959,992
Non-current Liabilities			
Deferred Revenues	13	**9,938**	47,942
		963,985	1,007,934
Equity			
Share Capital	14	**104,028,949**	97,774,718
Reserve – Share-based Compensation	15	**3,920,397**	3,814,972
Reserve – Warrants	16	**194,300**	393,300
Deficit		**(91,134,476)**	(83,555,497)
		17,009,170	18,427,493
		17,973,155	19,435,427

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

CONDENSED INTERIM STATEMENTS OF CASH FLOWS (Unaudited)

Periods ended September 30, 2013 and 2012
(In Canadian $)

	Notes	NINE MONTHS 2013 $	2012 $
Cash Flows from Operating Activities			
Net Loss before Income Taxes		**(7,854,979)**	(4,695,624)
Adjustments for :			
Depreciation of Property, Plant and Equipment		**364,155**	319,873
Amortization of Intangible Assets		**228,112**	224,780
Loss on write-off of Property, Plant and Equipment		**3,436**	45,511
Share-based Compensation		**137,585**	241,281
Financial Income	5	**(143,273)**	(129,893)
		(7,264,964)	(3,994,072)
Changes in Non-Cash Operating Working Capital Items	18	**(250,182)**	(685,437)
Interest Received		**156,748**	99,104
Cash Flows used in Operating Activities		**(7,358,398)**	(4,580,405)
Cash Flows from Investing Activities			
Acquisition of Short-term Investments		**(7,519,173)**	(5 008 410)
Disposal of Short-term Investments		**10,095,351**	2,610,000
Acquisition of Property, Plant and Equipment		**(192,763)**	(172 851)
Acquisition of Intangible Assets		**(249,499)**	(84 631)
Cash Flows generated by (used in) Investing Activities		**2,133,916**	(2,655,892)
Cash Flows from Financing Activities			
Issuance of Share Capital and Warrants	14	**7,000,000**	8,970,000
Payment for Share Issue Expenses	14	**(769,691)**	(817,807)
Options Exercised	14	**68,762**	56,255
Cash Flows generated by Financing Activities		**6,299,071**	8,208,448
Increase in Cash and Cash Equivalents		**1,074,589**	972,151
Cash and Cash Equivalents at the Beginning		**7,758,103**	8,782,207
Cash and Cash Equivalents at the End		**8,832,692**	9,754,358

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

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)

Periods ended September 30, 2013 and 2012

1. Description of Business

TSO_3 ("the Company") exists under the Business Corporations Act (Québec). Its activities encompass research, development, commercialization and licensing of sterilization processes, related consumable supplies and accessories for heat-sensitive medical devices. The head office of the Company is located at 2505, avenue Dalton, Québec (Québec), Canada.

2. Accounting Policies

Statement of Compliance

These condensed unaudited interim financial statements are prepared in compliance with International Accounting Standard 34 – Interim Financial Reporting ("IAS 34"). Accordingly, certain information and footnote disclosure normally included in annual financial statements prepared in accordance with International Financial Reporting Standards (IFRS) and applicable as at September 30, 2013 have been omitted or condensed. As such, these condensed interim unaudited financial statements should be read in conjunction with the Company's 2012 annual financial statements.

Standards adopted

In June 2011, the International Accounting Standards Board (IASB) also issued an amendment to IAS 1 – Presentation of Items of Other Comprehensive Income. This amendment requires items of other comprehensive income to be grouped into those that will and will not be reclassified to profit and loss in the future. The Company adopted this new amendment on January 1, 2013. As the Company does not have any element of reconciliation between Net Loss and Total Comprehensive Loss, this amendment had no impact on its financial reporting.

IFRS 13 – Fair value measurement establishes a single framework for measuring fair value where such required measure was under other IFRS. IFRS 13 applies to financial and non-financial items measured at fair value. Under IFRS 13, fair value 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 Company adopted this new standard on January 1, 2013 and discloses the information in the section "Financial Instruments" (Note 7). IFRS 13 had no impact on the Net Loss and Total Comprehensive Loss.

Basis of Preparation

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 is generally based on the fair value of the consideration given in exchange for assets.

The principal accounting policies are set out below.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)
Periods ended September 30, 2013 and 2012

2. Accounting Policies (cont'd)

Presentation Currency and Foreign Currency Translation

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

Foreign currency transactions are translated into Canadian dollars as follows: monetary assets and liabilities are translated at the exchange rates in effect at the financial position date, non-monetary assets and liabilities are translated at historical rates, revenues and expenses are translated at the exchange rates in effect at the time of the transaction, and exchange gains or losses resulting from translation are carried to net income.

Revenue Recognition

Sales

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

Financial Income

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

License Revenues

Up until June 30, 2012, the license revenues and the deferred license revenues resulted from a distribution agreement with 3M™. This agreement included license revenues that had been paid but were recognized on a straight line basis over the expected initial term of the agreement. The Company terminated that agreement on June 15, 2012. Any license revenue unrecognized on the termination date was recognized in June 2012.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)
Periods ended September 30, 2013 and 2012

2. Accounting Policies (cont'd)

Share-based Compensation

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

Income Taxes

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

Government Assistance and Research and Development Tax Credits

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

Inventories

The cost of inventories is essentially determined using the first-in, first-out method. The cost of work in progress and finished goods comprises the cost of raw materials and an applicable share of the cost of labour 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 in 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 CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)
Periods ended September 30, 2013 and 2012

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 their estimated useful life taking into account any residual value, as follows:

Office Furniture and Lift Truck	10 years
Equipment and Tools	7 years
Sterilizers Used Internally	5 years
Stand	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 each financial year-end.

Intangible Assets

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

Acquired in a Business Combination	
Technology	20 years
Acquired Externally	
Patents	20 years
License	16 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 each financial year-end.

Impairment of Property, Plant and Equipment and Intangible Assets

At the end of each reporting period, assets are reviewed for indication of any impairment. In such case, the asset's recoverable value is calculated 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 of the asset is determined on the basis of its cash generating unit.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)

Periods ended September 30, 2013 and 2012

2. Accounting Policies (cont'd)

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

The recoverable value is the higher of (1) an asset's 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 pre-tax 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's (or the cash generating unit's) carrying value is brought down to its recoverable value. An impairment loss is immediately recognized in the Statement of Loss and Total Comprehensive Loss.

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

Warranty Provision

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

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 Reserve - Warrants and the proceeds received by the Company are credited to Share Capital.

Financial Instruments

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

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

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)

Periods ended September 30, 2013 and 2012

2. Accounting Policies (cont'd)

Financial Instruments (cont'd)

Classification of Financial Instruments

Category	Classification
Cash	Loans and Receivables
Cash Equivalents	Fair Value through Profit or Loss
Short-term Investments	Fair Value through Profit or Loss
Accounts Receivable	Loans and Receivables
Accounts Payable and Accrued Liabilities	Other Liabilities

Cash and Cash Equivalents

Cash and cash equivalents include cash, bonds with maturities of three months or less from the date of acquisition and money market funds. These investments are highly liquid and are held for the purpose of meeting short-term cash commitments. Cash equivalents are recorded at fair value. Increases and decreases in fair value are recognized through net income and presented under "Change in the Value of Investments held as Cash Equivalents" in the "Financial Income" of the Statement of Loss and Total Comprehensive Loss (Note 5).

Short-term Investments

Short-term investments are instruments presented at fair value through profit or loss because they will be used for short-term cash needs. These investments are recorded at fair value. Increases and decreases in fair value are recognized as investment income and presented under "Change in the Value of Short-term Investments" in the "Financial Income" of the Statement of Loss and Total Comprehensive Loss (Note 5).

Loans and Receivables

Loans and receivables are accounted for at amortized cost using the effective interest method.

Other Liabilities

Other liabilities are recorded at amortized cost using the effective interest method.

Transaction Costs

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

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)
Periods ended September 30, 2013 and 2012

2. Accounting Policies (cont'd)

Financial Instruments (cont'd)

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

Critical Accounting Judgments and Key Sources of Estimates Uncertainty

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

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 of December 31, 2012 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;

   - A pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the intangible assets.

2. *Inventory Valuation:*

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

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NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)

Periods ended September 30, 2013 and 2012

2. Accounting Policies (cont'd)

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

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

   Government assistance and research and development tax credits are recorded in the financial statements 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

4. *Share-based Compensation:*

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

5. *Deferred Taxes Income:*

   The deferred income tax assets will be recorded in the financial statements only when the Company concludes that these losses will probably be materialized by shielding profits from taxes or otherwise. The tax assets amount will be recorded based on an effective rate of 15% for federal taxes and 11.9% for provincial taxes.

6. *Settlement Cost:*

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

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

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

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)

Periods ended September 30, 2013 and 2012

3. Future Accounting Changes

The IASB published IFRS 9 "Financial Instruments," which replaces the provisions of IAS 39 "Financial Instruments: Recognition and Measurement," with regard to the classification and measurement of financial assets and liabilities. The provisions of IFRS 9 were initially scheduled to apply to financial statements for periods beginning on or after January 1, 2013. On December 16, 2011, the IASB published an amendment to IFRS 9, in order to defer the mandatory effective date to annual periods beginning on or after January 1, 2015. Early adoption is permitted. The Company is currently evaluating the impact of this new standard on its financial statements.

4. Settlement Cost

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

As part of this agreement, the Company incurred a net Settlement Cost of $1,854,029. This cost is made of a single payment of US$2,000,000 (C$2,110,000) which was partly offset by the return of inventory held by the 3M Company (Note 9) and increased by the write-off of certain receivables for an amount of $16,195. The Company originally valued the returned inventory at $202,797 but re-assessed it by $69,369 to $272,166 during Q3-2013 once the items received and some of the refurbishment expenditures incurred.

5. Financial Income and Costs

	THIRD QUARTER		NINE MONTHS	
	2013	2012	**2013**	2012
	$	$	**$**	$
Financial Income				
Investment Income	**(47,143)**	(76,812)	**(141,732)**	(160,728)
Change in the Value of Investments held as Cash Equivalents	**-**	18,833	**(1,541)**	30,835
	(47,143)	(57,979)	**(143,273)**	(129,893)
Financial Costs				
Bank Charges	**7,711**	7,168	**23,054**	16,464
Foreign Exchange Loss (Gain)	**8,992**	5,512	**(2,368)**	10,554
Miscellaneous	**-**	(11)	**-**	(353)
	16,703	12,669	**20,686**	26,665

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)

Periods ended September 30, 2013 and 2012

6. Additional Information on Statement of Loss and Total Comprehensive Loss

	THIRD QUARTER		NINE MONTHS	
Expenses included in functions	**2013**	2012	**2013**	2012
	$	$	**$**	$
Salary & Other Benefits	**1,178,388**	1,266,826	**3,842,796**	3,950,037
Supply Chain				
Customer Service and Communications				
Research & Development				
Administrative				
Depreciation of Property, Plant and Equipment	**126,890**	108,633	**364,155**	319,873
Supply Chain				
Customer Service and Communications				
Research & Development				
Administrative				
Amortization of Intangible Assets	**76,811**	75,119	**228,112**	224,780
Supply Chain				
Customer Service and Communications				
Research & Development				
Administrative				

7. Financial Instruments

Cash and Cash Equivalents

	September 30 2013	December 31 2012
	$	$
Cash	**3,589,747**	6,305,645
Short-term Investments less than three months		
Interest-bearing Saving Account	**5,242,945**	-
Money Market Funds	**-**	1,452,458
	8,832,692	7,758,103

No Money Market Funds were held as of September 30, 2013 (Money Market Funds were rated AA- as of December 31, 2012).

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)
Periods ended September 30, 2013 and 2012

7. Financial Instruments (cont'd)

Short-term Investments

	September 30 2013 $	December 31 2012 $
Bank Guaranteed Investment Certificates	**2,459,434**	5,049,087

As of September 30, 2013, Bank Guaranteed Investment Certificates were rated AA- or better by two recognized rating agencies and had a yield of 1.48 % versus rated AA- or better with a yield of 1.60% as of December 31, 2012.

Money market funds held by the Company are classified as level 1 under IFRS 7. There fair value is the closing price on an active market on the measurement date.

The Bank Guaranteed Investment Certificates and the Interest Bearing Saving Account held by the Company are classified as level 2 under IFRS 7. Their fair value is calculated using the expected cash flow method discounted at the market rate on the measurement date.

No transfer between Level 1 and Level 2 of the fair value hierarchy has been made during the period.

The Company is exposed to various risks, including the risks related to holding financial instruments. To manage the risk related to the use of financial instruments contained in the various investments that make up cash and cash equivalents and short-term investments, controls have been implemented and, in particular, an investment policy was adopted and implemented. The Company considers that the return on short-term investments is secondary to risk minimization and primarily aims to optimize cash flows from a maturity perspective. With respect to investments, the main risk exposures are as follows:

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.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)
Periods ended September 30, 2013 and 2012

7. Financial Instruments (cont'd)

Interest Rate Risk

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

At September 30, 2013, if interest rates on that date had been 0.5% lower, and all other variables held constant, the net loss and total comprehensive loss for the nine-month period would have been $3,982 higher ($3,247 as of December 31, 2012), arising mainly as a result of an increase in the fair value of fixed rate financial assets classified at fair value through profit or loss. If the interest rates on that date had been 0.5% higher, all other variables being held constant, the net loss and total comprehensive loss for the nine-month period would have been $3,956 lower ($3,229 as of December 31, 2012), 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 therefore has a similar sensitivity to interest rate increases and interest rate decreases.

Credit Risk

The use of financial instruments can create a credit risk in which there is 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 accounts receivable, cash and cash equivalents and short-term investments.

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 agency. This policy sets limits to the size of exposures based on the credit risk of the counterparties.

As at September 30, 2013, the Company's investments were rated by two recognized agencies, and were within the credit metrics 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 September 30, 2013, there was no single investment that exceeded the limit required under the Company's Investment Policy except a bank deposit that exceeded such limit by a non material amount.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)
Periods ended September 30, 2013 and 2012

7. Financial Instruments (cont'd)

Liquidity Risk

Liquidity risk represents the possibility that the Company would be unable to monetize its financial instruments so as to meet 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 permanent and sufficient liquidity to meet current and future financial obligations, under both normal and exceptional circumstances. The funding strategies used to manage this risk include turning to capital markets to carry out issues of securities.

Currency Risk

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

As of September 30, 2013, if the Canadian dollar had weakened 10 percent against the US dollar with all other variables held constant, the net loss and total comprehensive loss for the nine-month period would have been $15,537 lower ($26,979 as of December 31, 2012). Conversely, if the Canadian dollar had strengthened 10 percent against the US dollar with all other variables held constant, the net loss and total comprehensive loss for the nine-month period would have been $15,537 higher ($26,979 as of December 31, 2012).

8. Accounts Receivable

	September 30 2013 $	December 31 2012 $
Accounts Receivable	**15,442**	55,034
Government Credits Receivable	**912,694**	968,820
Other	**-**	5,411
	928,136	1,029,265

There were no bad debt allowances as of September 30, 2013 (none as of December 31, 2012).

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)
Periods ended September 30, 2013 and 2012

9. Inventories

	September 30 2013 $	December 31 2012 $
Raw Materials	**938,270**	874,635
Work in Progress	**347,033**	111,470
Finished Goods	**165,390**	230,616
	1,450,693	1,216,721

In accordance with the settlement agreement concluded on June 30, 2013, the 3M Company has returned to TSO_3, inventories that it held. These inventories include a net amount of $39,831 recorded as raw materials, $212,323 in sterilizers recorded as work in progress and $20,012 in supplies and accessories accounted for in finished goods inventory (Note 4).

Supply Chain expenses include a write-down of raw materials of $53,682 for the nine-month period ended September 30, 2013 (none for the same period in 2012).

During the nine-month period ended September 30, 2013, the Company transferred $128,015 to its property, plant and equipment to account for sterilizers used internally ($247,980 for the same period in 2012).

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)

Periods ended September 30, 2013 and 2012

10. Property, Plant and Equipment

	Office Furniture $	Lift Truck $	Equipment and Tools for Production and R&D $	Sterilizers Used Internally $	Stand $	Medical Devices $	Computer Equipment $	Leasehold Improve-ments $	Total $
Cost									
Balance at January 1, 2013	187,121	14,115	1,173,220	986,762	22,735	391,758	594,958	197,788	3,568,457
Additions	10,854	-	24,413	128,015	-	144,663	12,833	-	320,778
Write-off	-	-	(2,967)[1]	-	(22,735)[1]	-	-	(4,725)[1]	(30,427)
Balance at September 30, 2013	197,975	14,115	1,194,666	1,114,777	-	536,421	607,791	193,063	3,858,808
Accumulated Depreciation									
Balance at January 1, 2013	135,306	14,115	888,930	361,215	21,392	222,469	519,396	197,240	2,360,063
Depreciation	9,204	-	78,512	155,936	521	90,334	29,237	411	364,155
Eliminated on Write-off Assets	-	-	(353)[1]	-	(21,913)[1]	-	-	(4,725)[1]	(26,991)
Balance at September 30, 2013	144,510	14,115	967,089	517,151	-	312,803	548,633	192,926	2,697,227
Carrying Amount at September 30, 2013	53,465	-	227,577	597,626	-	223,618	59,158	137	1,161,581

[1] In 2013, the Company wrote-off an amount of $4,725 in leasehold improvements, $2,967 for production tools which were no longer used and $22,735 for a stand that will be replaced in the next quarter.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)
Periods ended September 30, 2013 and 2012

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

	Office Furniture $	Lift truck $	Equipment and tools for production and R&D $	Sterilizers used internally $	Stand $	Medical devices $	Computer equipment $	Leasehold Improve-ments $	Total $
Cost									
Balance at January 1, 2012	186,189	14,115	1,121,985	794,509	22,735	278,370	528,305	197,788	3,143,996
Additions	932	-	51,235	247,980	-	113,388	66,653	-	480,188
Write-off	-	-	-	(55,727)[1]	-	-	-	-	(55,727)
Balance at December 31, 2012	187,121	14,115	1,173,220	986,762	22,735	391,758	594,958	197,788	3,568,457
Accumulated Depreciation									
Balance at January 1, 2012	121,493	13,410	787,549	189,184	20,497	114,896	488,785	189,801	1,925,615
Depreciation	13,813	705	101,381	182,247	895	107,573	30,611	7,439	444,664
Eliminated on Write-off of Assets	-	-	-	(10,216)[1]	-	-	-	-	(10,216)
Balance at December 31, 2012	135,306	14,115	888,930	361,215	21,392	222,469	519,396	197,240	2,360,063
Carrying Amount at December 31, 2012	51,815	-	284,290	625,547	1,343	169,289	75,562	548	1,208,394

[1] In 2012, the Company wrote-off an amount of $55,727 for sterilizers of the former generation which were no longer used in its R&D activities

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)
Periods ended September 30, 2013 and 2012

11. Intangible Assets

	Technology $	Patents $	License $	Software $	Trademarks $	Web Site $	Total $
Cost							
Balance at January 1, 2013	2,984,124	873,713	991,063	610,876	104,727	54,691	5,619,194
Additions	-	245,219	-	1,052	3,228	-	249,499
Balance at September 30, 2013	2,984,124	1,118,932	991,063	611,928	107,955	54,691	5,868,693
Accumulated Amortization							
Balance at January 1, 2013	1,191,683	193,757	557,472	556,154	31,224	54,691	2,584,981
Amortization	111,904	37,361	46,458	24,904	7,485	-	228,112
Balance at September 30, 2013	1,303,587	231,118	603,930	581,058	38,709	54,691	2,813,093
Carrying Amount at September 30, 2013	1,680,537	887,814	387,133	30,870	69,246	-	3,055,600

	Technology $	Patents $	License $	Software $	Trademarks $	Web Site $	Total $
Cost							
Balance at January 1, 2012	2,978,874	789,174	991,063	594,125	101,535	54,691	5,509,462
Additions	5,250	84,539	-	16,751	3,192	-	109,732
Balance at December 31, 2012	2,984,124	873,713	991,063	610,876	104,727	54,691	5,619,194
Accumulated Amortization							
Balance at January 1, 2012	1,042,607	152,185	495,531	517,918	21,564	52,922	2,282,727
Amortization	149,076	41,572	61,941	38,236	9,660	1,769	302,254
Balance at December 31, 2012	1,191,683	193,757	557,472	556,154	31,224	54,691	2,584,981
Carrying Amount at December 31, 2012	1,792,441	679,956	433,591	54,722	73,503	-	3,034,213

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)
Periods ended September 30, 2013 and 2012

12. Warranty Provision

	September 30 2013 $	December 31 2012 $
Balance at Beginning	**62,032**	88,972
Additional Provisions Recognized	**-**	30,314
Amounts Used during the Period	**-**	(51,974)
Unused Amounts Reversed during the Period	**(57,032)**	(5,280)
Balance at the end	**5,000**	62,032

13. License Revenues and Deferred Revenues related to License

Up until June 2012, the Company was amortizing over the expected life of its distribution agreement the license payments it had received from the 3M Company under that agreement. On June 15, 2012, the Company terminated that distribution agreement.

As a result of such termination, the unamortized amount of $1,585,833 of the license payments was recognized in June 2012 as revenue in accordance with the Company's accounting policies, and the Company ceased to recognize license revenue since that date.

14. Share Capital

Authorized

An unlimited number of shares

Common, voting, participating, without par value.

Preferred, non-voting, having priority over the common shares, issuable in series, each series bearing the number of shares, designation, rights, privileges, restrictions and conditions as determined by the Board of Directors.

	September 30, 2013		December 31, 2012	
Issued and Paid	**Number of Common Shares**	**$**	Number of Common Shares	$
Balance at Beginning	**65,888,182**	**97,774,718**	58,785,682	89,920,532
New Issue	**7,000,000**	**6,153,309**	6,900,000	7,758,065
Options Exercised	**112,724**	**100,922**	202,500	96,121
Balance at End	**73,000,906**	**104,028,949**	65,888,182	97,774,718

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)
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14. Share Capital (cont'd)

On March 4, 2013, the Company issued, by way of prospectus, 7,000,000 common shares with gross proceeds of $7,000,000 and expenses of $846,691 for a net proceed of $6,153,309. The warrants included in those expenses had a fair value of $77,000 (Note 16).

On April 24, 2012, the Company closed an equity private placement with gross proceeds of $8,970,000 from the sale of units that were comprised of 6,900,000 shares and 3,450,000 warrants.

The share component of the gross proceeds was evaluated at $8,694,000 and expenses related to the issue amounted to $935,935. Therefore, the net proceeds allocated to the share issue were $7,758,065. The fair value of the warrants issued to investors was evaluated at $276,000 and the fair value of the warrants issued to underwriters in connection with that private placement was evaluated at $117,300.

During the nine-month period ended September 30, 2013, pursuant to the Company's Stock Option Plan, holders exercised certain options and subscribed for 112,724 shares for a cash consideration of $68,762 (no option was exercised by option holders during the same period in 2012).

Shareholder Rights Plan Agreement

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

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

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14. Share Capital (cont'd)

Shareholder Rights Plan Agreement (cont'd)

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

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

The agreement has no impact on the financial statements.

Employee Stock Purchase Plan

On May 2, 2007, the Company set up an employee stock purchase plan for employees and executives. Eligible participants may contribute, in the form of payroll deductions, up to 5% of their basic salary. The Company contributes an amount equal to 50% of the participant's total monthly contribution. Every month, the participants' and Company's contributions are transferred to an investment dealer that 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.

15. Reserve – Share-Based Compensation

The Company's Board of Directors adopted a Share-Based Compensation plan in the form of an option plan designed solely for directors, executives, key employees and service providers of the Company. The plan was approved by the shareholders. The total number of common shares that can be issued under this plan from the Company's share capital was, as of September 30, 2013, 5,262,349 (5,375,073 as of December 31, 2012). The options awarded pursuant to this plan generally vest over a three-year period and may be exercised within a maximum of 10 years of the date of award.

During the third quarter of 2013, the Company has not awarded any stock options (40,000 stock options at a weighted average exercise price of $1.34 were awarded during the third quarter of 2012).

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)
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15. Reserve – Share-Based Compensation (cont'd)

For the nine-month period ended September 30, 2013, the Company awarded 90,000 stock options at a weighted average exercise price of $0.91 (238,000 stock options were awarded at a weighted average exercise price of $1.33 during the year ended December 31, 2012). The weighted average fair value of the stock options awarded as at September 30, 2013 was $0.51 ($0.61 as at December 31, 2012).

The Share-Based Compensation expense pertaining to the options awarded has been amortized using the graded vesting method and represents a share-based compensation expense of $45,861 for the third quarter of 2013 and $137,585 for the nine-month period ended September 30, 2013 presented as part of the "Administrative Expenses" ($82,091 for the third quarter of 2012, and $241,281 for the nine-month period ended September 30, 2012).

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

	September 30 2013	December 31 2012
Weighted Average Share Price	**$0.95**	$1.32
Exercise Price	**$0.91**	$1.33
Risk Free Interest Rate	**2.10%**	2.23%
Estimated Share Price Volatility	**45%**	39%
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 which will vest and be exercised. In addition, option pricing models such as the Black-Scholes model require highly subjective valuations, including the assumed stock price volatility of the underlying shares. Volatility was estimated for the 2013 and 2012 awards on the basis of the historical volatility of the Company's share price prior to the date of award. Any change in the assumptions can materially affect the fair value estimates.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)
Periods ended September 30, 2013 and 2012

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

	September 30, 2013		December 31, 2012	
	Number	**Weighted Average Exercise Price $**	Number	Weighted Average Exercise Price $
Outstanding at beginning	**3,714,145**	**1.13**	3,748,645	1.08
Granted	**90,000**	**0.91**	238,000	1.33
Exercised	**(112,724)**	**0.61**	(202,500)	0.27
Expired	**(449,845)**	**1.55**	(19,000)	2.30
Forfeited	**(76,701)**	**2.08**	(51,000)	0.78
Outstanding at end	**3,164,875**	**1.06**	3,714,145	1.13
Exercisable at end	**2,635,108**	**0.95**	2,975,212	1.00

The following table summarizes certain information regarding the stock options of the Company as of September 30, 2013:

	Outstanding Options		**Exercisable Options**	
Exercise Price	**Number**	**Average Remaining Contractual Life (year)**	**Number**	**Average Remaining Contractual Life (year)**
$0.37 to $0.94	1,710,500	5.34	1,620,500	5.14
$1.08 to $1.97	1,208,859	5.84	769,092	3.59
$2.20 to $3.45	245,516	3.18	245,516	3.18
	3,164,875	5.36	2,635,108	4.50

The following table summarizes certain information regarding the stock options of the Company as of December 31, 2012:

	Outstanding Options		**Exercisable Options**	
Exercise Price	**Number**	**Average Remaining Contractual Life (year)**	**Number**	**Average Remaining Contractual Life (year)**
$0.37 to $0.94	1,816,769	5.29	1,816,769	5.29
$1.08 to $1.97	1,629,860	5.50	890,927	2.80
$2.20 to $3.45	267,516	3.66	267,516	3.66
	3,714,145	5.28	2,975,212	4.41

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)
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16. Reserve - Warrants

	September 30 , 2013		December 31, 2012	
	Exercise Price		Exercise Price	
	Number	**$**	Number	$
Outstanding at Beginning	**3,795,000**	**1.94**	-	-
Granted	**350,000**	**1.00**	3,795,000	1.94
Expired	**(3,450,000)**	**2.00**	-	-
Outstanding at End	**695,000**	**1.15**	3,795,000	1.94
Exercisable at End	**695,000**	**1.15**	3,795,000	1.94

During the first quarter of 2013, 350,000 warrants were issued as part of the compensation to Underwriters in connection with the share issue closed on March 4, 2013. Each of the 350,000 compensation warrants will be exercisable to acquire one common share at the exercise price of $1.00 until September 4, 2014. On March 4, 2013, the fair value of each of these compensation warrants was $0.22.

During the year ended December 31, 2012, 3,450,000 warrants were issued to purchasers of the bought deal private placement closed on April 24, 2012, and 345,000 warrants issued as part of the compensation to Underwriters. The 3,450,000 warrants issued to investors allowed its holders to purchase one common share at the price of $2.00 and expired on April 24, 2013.

Each of the 345,000 compensation warrants will be exercisable to acquire one common share at the exercise price of $1.30 until October 24, 2013. On April 24, 2012, the fair value of each of these compensation warrants was $0.10.

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

	September 30 2013	December 31 2012
Weighted Average Share Price	**$0.99**	$1.40
Exercise Price	**$1.00**	$1.94
Risk Free Interest Rate	**1.23%**	1.32%
Estimated Share Price Volatility	**45%**	42%
Expected Life	**18 months**	12.5 months
Expected Dividend Yield	**0%**	0%

At any time when warrants expire without being exercised or are being cancelled, the Company is authorized to transfer to the Deficit the amount corresponding to such warrants that would be included in the Reserve for Warrants. Such transfer was made as at June 30, 2013 for the 3,450,000 warrants that expired on April 24, 2013 (no transfer was made during the same period in 2012).

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)

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17. Capital Management

The Company needs capital primarily to finance its research and development activity, its supply chain, administrative and marketing expenses, its working capital and its capital expenditures. The Company's capital is comprised of share capital, share-based compensation and warrants. In the past, the Company has financed its activities through various rounds of public and private financing and, to a small extent, through government grants and tax credits. 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.

18. Additional Information Relating to Cash Flows

	NINE MONTHS	
	2013	**2012**
	$	**$**
Change in Non-Cash Operating Working Capital Items		
Decrease (Increase) in Currents Assets		
Accounts Receivable	**101,129**	1,691,440
Inventories	**(233,972)**	25,663
Prepaid Expenses	**54,625**	23,004
Increase (Decrease) in Liabilities		
Accounts Payable and Accrued Liabilities	**21,950**	(390,031)
Warranty Provision	**(57,032)**	(6,049)
Deferred Revenues	**(8,867)**	(1,781,484)
	(122,167)	(437,457)
Non-cash Items Transferred to Property, Plant and Equipment	**(128,015)**	(247,980)
	(250,182)	(685,437)

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)
Periods ended September 30, 2013 and 2012

19. Income Taxes

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

The deferred income tax assets related to such losses and non-refundable investment tax credits will not be recognized in the financial statements, then resulting in an increase in earnings and shareholders' equity, until the Company is enabled to conclude that these unrecorded tax assets are probable to be materialized by shielding profits from taxes or otherwise. If the Company had concluded on September 30, 2013 that these items would likely be materialized, based on an effective rate of 15% for federal taxes and 11.9% for provincial taxes, it would have recorded an aggregate net amount of $24,600,000 in tax assets ($22,443,000 as at December 31, 2012).

20. Research and Development Tax Credits

The Company claims two different kinds of tax credits, one kind which is refundable regardless of the level of taxable income, and the other kind which can be obtained only to offset a tax liability. At the present time, in accordance with the Company's accounting policies, the non-refundable credits are not booked as a deferred tax asset.

The tax credits claimed for the fiscal years ended on December 31, 2012 and 2011 have not been reviewed by the tax authorities. Consequently, those amounts of tax credits that will be awarded could differ from the ones already recorded.

21. Segmented Information

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

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

	THIRD QUARTER				**NINE MONTHS**			
	2013		2012		**2013**		2012	
	$	**%**	**%**	%	**$**	**%**	$	%
Canada	**34,500**	**81**	21,345	32	**123,515**	**79**	914,499	83
Rest of the word	**8,354**	**19**	44,891	68	**32,653**	**21**	189,283	17
	42,854	**100**	66,236	100	**156,168**	**100**	1,103,782	100

Up until June 15, 2012, the Company earned a material part of its revenues under the now-terminated distribution agreement with the 3M Company. Shipments to that client were made in Canada and elsewhere in the world.

License revenue recorded up until June 2012 in connection with the terminated distribution agreement with the 3M Company is allocated to the geographic area "Rest of the world".

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)
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22. Loss per Share

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

	THIRD QUARTER		NINE MONTHS	
	2013	2012	**2013**	2012
	$	$	**$**	$
Net Loss				
Basic and Diluted	**(1,949,233)**	(2,160,348)	**(7,854,979)**	(4,695,624)
Number of Shares				
Weighted Average Number of Outstanding Shares[1)]	**72,934,915**	65,888,182	**71,314,103**	62,932,071
Loss per Share				
Basic	**(0.03)**	(0.03)	**(0.11)**	(0.07)
Diluted [2)]	**(0.03)**	(0.03)	**(0.11)**	(0.07)

1) The calculation of the weighted average number of outstanding shares is determined as a function of the number of outstanding common shares based on the fraction of the period during which the shares were outstanding.

2) The weighted average number of outstanding shares is the same number used in the calculation of the diluted net loss per share since the inclusion of common shares resulting from the eventual exercise of options and warrants is antidilutive, in the calculation of the diluted loss per share.

23. Contractual Commitments

As of September 30, 2013, the contractual commitments in the fiscal years to come are as follows:

	2014	2015	2016	2017	2018
	$	$	$	$	$
Operating Leases and Services Contracts	122,000	13,000	9,000	8,000	1,000

24. Approval of Financial Statements

The financial statements were approved by the Board of Directors on November 8, 2013.