2017 Quarterly Report

July, August, September

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Message from the President and Chief Executive Officer

Dear Valued Shareholders,

During the third quarter of 2017, TSO_3 assembled and shipped 44 STERIZONE® VP4 Sterilizers to our distributor, Getinge. To date in 2017, TSO_3 has shipped 120 sterilizers to Getinge and is on target to ship the backlog of orders for 2017 delivery with which we started the year.

There are currently 50 sterilizers delivered to end-user locations. All but a few of them have been installed. Together with our distribution partner, we are continuing to build a growing list of medical facilities using our product and experiencing our unique value proposition. The backlog of future deliveries continues to grow. As a result, we are targeting a total of 70 deliveries to end-users by year-end and, consequently, TSO_3 is increasing our resources to support installation and startup activities.

During the quarter, as reported, we received questions from US regulators concerning our submission to further enhance our sterilizer claims to include duodenoscopes. The questions revealed concerns with already established high level disinfection practices and requested that TSO_3 perform a limited set of work to document the impact of using our sterilizer on "challenge features" that are part of the design of these scopes. This work is well underway and at the time of this letter, continues to be on pace to enable us to respond to the agency by the end of November.

Separately, during the quarter a landmark presentation was given during the World Federation of Healthcare Sterilization Science (WFHSS) which took place in Bonn, Germany. The presentation was specific to sterilization of duodenoscopes using the TSO_3 STERIZONE® VP4 Sterilizer. This was the first time data had been presented uniquely relating to TSO_3's advanced technology. The initial results are positive and we look forward to seeing additional data as it is available. Since this presentation, at least one additional hospital in Canada has initiated terminal sterilization of their duodenoscopes and others are planning the same.

Additionally, a hot topic of discussion in the industry this fall has been the standards setting organization, the Association for the Advancement of Medical Instrumentation (AAMI), facilitating an open dialogue on the topic of transitioning flexible endoscope reprocessing standards from their current practice of High Level Disinfection to that of Terminal Sterilization. The evidence appears overwhelming to support a higher standard of reprocessing and we feel strongly that our technology is a key contributor to this discussion. Supporting this is a recently published peer reviewed paper titled "A new method to sterilize multichannel flexible colonoscopes" appearing in the Fall issue of the Canadian Journal of Infection Control.

2017 continues to be a year of growth and in less than two years the Company has reached the capacity of existing assembly facilities. As a result, we are moving forward with plans for a new high-capacity assembly facility in South Carolina to complement our Quebec facilities. In the second half of 2018, we expect that our combined assembly operations will be in a position to deliver sterilizers to Getinge at a pace in excess of our current capacity, and, in total, more units than we delivered in all of 2017.

Over the past years, the Company has continued its R&D efforts towards a new "80L" Sterilizer. Given our available resources and opportunities, the Company has decided first to incorporate the advancements identified in the 80L Sterilizer into our VP4 Sterilizer. TSO_3 and Getinge have discussed these feature improvements, which will make installations faster and easier, and we are planning to deliver this enhanced product direct from our factories in the second half of 2018. In the interim, TSO_3 is planning to adjust, for a charge, inventory currently held by Getinge, as these product enhancements have been deliberately designed to be fully "retrofittable" with the current version of the sterilizer.

Recently, Getinge announced another organizational change. TSO_3 met with the new Global Chief Commercial Officer and the President of the Surgical Workflows Division to discussed plans going forward. We have seen tangible results in the delivery of and increased order intake for our sterilizer, but there is room for further improvement from where we are today. Not all of the conditions outlined in the Getinge Agreement have been met by Getinge, including meeting its original minimum order quantities, but the Company has decided at this time to work with Getinge toward the parties' mutual objectives. We established with Getinge that productivity increases with the support of TSO_3. Thus, TSO_3 shall resource additional sales, clinical and technical support personnel immediately to assist in driving Getinge performance beyond the current levels. In addition, these same resources will be leveraged to further develop our emerging GI business.

In summary, we remain laser focused on developing demand for our product within the sterile reprocessing department of hospitals and developing the market for GI applications. Significant progress is being made and we are doubling down on our efforts to drive accelerated acceptance in the short term. We currently anticipate using our existing cash resources to fund these various initiatives.

As always the support of the TSO_3 team, the Board of Directors and our shareholders is appreciated.

R.M. (Ric) Rumble

Overview

General Description

TSO_3 Inc. ("TSO_3", or the "Company") was founded in June 1998 in Québec City, Canada and employs 75 people as of September 30, 2017. The Company's activities encompass the sale, production, maintenance, research, development and licensing of sterilization processes, related consumable supplies and accessories for medical devices that are sensitive to heat and moisture. The Company designs products for sterile processing areas in medical facilities that offer an advantageous replacement solution to other low temperature sterilization and high level disinfection processes currently used. TSO_3 also offers services related to the maintenance of sterilization equipment and compatibility testing of medical devices with such processes.

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

Technology

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

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

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

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

- First and only dual-sterilant sterilizer cleared by the FDA for sale in the US;
- First single cycle, low-temperature sterilizer cleared in the US, Europe and Canada to process a 75-pound load of general instruments, single channel flexible endoscopes, and rigid and semi-rigid channeled devices;
- First low temperature sterilizer validated and cleared in the US, Europe and Canada to sterilize multi-channeled endoscopes (with four or fewer channels) up to 3.5 meters in length such as videocolonoscopes and gastroscopes, along with duodenoscopes in Europe and Canada;

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

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

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

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

TSO_3 has established laboratory data validating the STERIZONE® VP4 Sterilizer, with its dual sterilants of hydrogen peroxide and ozone, can repeatedly sterilize multiple brands of duodenoscopes used in the majority of endoscopic retrograde cholangio-pancreatography (ERCP) procedures globally. This breakthrough comes at a critical time, with the growing use of duodenoscopes, along with the increasing number of adverse incidents related to ineffectual reprocessing. TSO_3 is currently cleared for duodenoscopes in the Canadian and European markets and on July 20, 2017, the Company filed a 510(k) submission for its STERIZONE® VP4 Sterilizer for the terminal sterilization of duodenoscopes in the United States.

Business Environment and the Market Drivers

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

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

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

Why Low Temperature Sterile Reprocessing

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

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

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

Competitive Landscape

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

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

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

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

Regulatory Status

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

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

The expanded claims now cleared for the STERIZONE® VP4 Sterilizer correspond to increasing scrutiny by regulatory authorities over medical device reprocessing, particularly for colonoscopes and other complex medical devices used during MIS procedures. Disinfection is significantly less effective than sterilization because it does not necessarily kill all harmful microorganisms, especially bacterial

spores. Low temperature terminal sterilization with the STERIZONE® VP4 Sterilizer offers a more effective solution, since it involves a proprietary physical and chemical process that thoroughly destroys all types of microbiological organisms with a sterility assurance level of 10^{-6} (SAL^{-6}). Further, the evidence TSO_3 has provided to the FDA confirms that the STERIZONE® VP4 Sterilizer can terminally sterilize multi-channeled flexible endoscopes (with a maximum of four channels) having internal lumens of ≥ 1.45 mm in inner diameter and ≤ 3,500 mm in overall length, and ≥ 1.2 mm in inner diameter and ≤ 1,955 mm in overall length, which are commonly found in videocolonoscopes and gastroscopes - an industry first for any medical device sterilization process.

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

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

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

On September 27, 2017, the Company announced that it had received correspondence from US regulators pertaining to its submission for extended claims for the STERIZONE® VP4 Sterilizer in relation to the terminal sterilization of duodenoscopes. In their correspondence, US regulators requested clarification on certain aspects of the Company's proposed labeling consistent with the reprocessing of specific duodenoscopes using the STERIZONE® VP4 Sterilizer. In addition, acknowledging recent challenges that have impacted ERCP scopes, regulators have also asked for specific testing to be documented pertaining to what they describe as "challenge features" of the identified devices. This includes testing the integrity of the adhesive seal found at and under the distal endcap of the duodenoscope after sterilization processing. The Company is preparing a notice for the regulators addressing specific questions, as well as outline intended actions for their comment. The Company's goal is to provide a complete and final response within the 180-day limit established by regulators.

Commercial Activities

On November 25, 2015, TSO_3 and Getinge Infection Control AB ("Getinge"), a global leader in infection control solutions, entered into an agreement (the "Getinge Agreement") which granted Getinge for five years, exclusive worldwide global distributor rights to TSO_3's STERIZONE® VP4 Sterilizer in exchange for $7.5 million plus performance minimums. Getinge shall have the right to extend the agreement for another 5 years if Getinge's purchases in the fifth year of the agreement exceed 130% of the performance minimums for that year.

In association with the Getinge Agreement, TSO_3 received initial purchase orders from Getinge in December 2015, and shipped 110 associated STERIZONE® VP4 Sterilizers and related accessories throughout 2016. These shipments supplied Getinge with sterilizers for sale to end users, and allowed the Company to establish higher volume production, production capacities, purchasing methodologies and supply chain structures. Throughout 2016, the Company produced and shipped these 110 units, achieved cost reductions and found opportunities for additional cost improvements. In December

2016, TSO_3 announced that it had received a purchase order for a significant number of STERIZONE® VP4 Sterilizers in 2017 – again providing the Company a degree of operational and supply chain predictability for 2017. The Company shipped an additional 44 STERIZONE® VP4 Sterilizers to Getinge in the third quarter of 2017 in partial fulfillment of these orders, for a year-to-date total of 120 STERIZONE® VP4 Sterilizers as at September 30, 2017.

The performance requirements of Getinge Agreement are multi-year and based on a formula for minimum unit shipments, with minimum annual commitments reaching in excess of 10% of the estimated existing annual global replacement market by the end of the first five years of the agreement. The Company must also maintain the capacity to produce certain minimum number of units in order to be able to meet orders made by Getinge under the agreement. Sales under the Getinge Agreement are made in US dollars to Getinge, who is the Company's only customer for the STERIZONE® VP4 Sterilizer while the Getinge Agreement is in force. The Company recognizes revenue when it sells its sterilizers to Getinge. Getinge is also receiving ongoing technical support from TSO_3 as part of the Getinge Agreement.

Getinge must provide a purchase order to be obligated to buy units under its minimum annual commitments. In the event Getinge fails to comply with its minimum annual or other material commitments outlined in the Getinge Agreement, TSO_3 may elect to send a notice of breach to Getinge, which would provide Getinge a 90 day cure period before TSO_3 could elect to terminate the agreement. In the event of such termination by TSO_3, Getinge would lose licensing and other rights made available by the agreement, and the Company's only other recourse against Getinge would be to retain in full the $7.5 million license fee payment made by Getinge when the Getinge Agreement was entered into and require Getinge to accept delivery and pay for units under any then outstanding purchase orders.

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

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

Strategic Partnership Program

During 2016, TSO_3 also signed with a number of leading healthcare institutions under its Strategic Partnership Program - a program where healthcare institutions work with TSO_3 to study the impact of the Company's industry changing technology on traditional sterilization practices and the processes to enable the routine terminal sterilization of multi-channel flexible endoscopes. Contracts have been signed with the Mount Sinai Hospital of New York, the Highland Hospital of Rochester, NY which is part of UR Medicine (the University of Rochester's clinical enterprise), the Medical University of South Carolina and the Vancouver General Hospital in Canada.

Supply Chain Financing

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

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

TSO_3 has used the program during the nine-month period of 2017.

European Expansion

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

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

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

Intellectual Property

Considering the time and investment required to develop new products and obtain marketing authorization, the Company places considerable importance on protecting its research findings, trade secrets and technologies. As of September 30, 2017, TSO_3 had 103 issued patents or patent applications pending, with 47 relating specifically to the Company's STERIZONE® VP4 Sterilizer and related technology. TSO_3 relies on a combination of patents, laws, trade secrets, non-disclosure agreements and various contractual arrangements to protect its exclusive technology. Despite the effort, nothing can guarantee that TSO_3's protective measures are enforceable or sufficient to prevent illicit appropriation of its technology or development of the same or similar technology by a third party.

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

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

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

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

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

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

Also in 2016:

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

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

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

During the second quarter of 2017:

- The Japanese Patent Office granted to the Company an eighth patent on an additional important aspect of TSO_3's technology to further strengthen patent protection of the STERIZONE® Sterilization System;
- A third patent which covers a core aspect of the technology embedded in the STERIZONE® Sterilization System has been granted in Mexico;
- A first patent covering another core aspect of the technology embedded in the STERIZONE® Sterilization System has been granted to the Company in South Korea to further expand the geographical patent protection coverage of the Company;
- The Canadian Patent Office allowed to the Company a fourth patent which covers an important aspect of TSO_3's technology embedded in the STERIZONE® Sterilization System;
- The Patent Office of South Africa granted to the Company a first patent on its innovative methods further improving compatibility under differing load conditions for surgical instruments and accessories;

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

During the third quarter of 2017:

- The US Patent Office allowed to the Company an eighth patent on an additional critical aspect of the technology embedded in the TSO_3 STERIZONE® Sterilization System;
- A fifth patent covering an important aspect of TSO_3's technology has been allowed to the Company by the Canadian Patent Office;
- The Company has also been notified by the Patent Office of South Korea of its decision to grant four additional patent covering important aspects of TSO_3's technology and mostly embedded in the STERIZONE® Sterilization System;
- A fourth and a fifth additional patent which covers important aspects of TSO_3's technology have also been granted in Mexico.

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

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

2017 and 2018 Focus

In 2017 and 2018, TSO_3 will continue to focus its resources to help TSO_3 and Getinge to achieve their objectives. Although not all of the conditions outlined in the Getinge Agreement have been met by Getinge, including meeting its original minimum order quantities, the Company has decided a this time to work with Getinge toward the parties' mutual objectives. To this end, TSO_3 plans to modestly expand its commercialization and service efforts in support of Getinge to facilitate further sales, installations and service to end customers. The Company plans to conduct additional training and sales meetings and further invest in marketing and sales collateral in support of the deployment of the STERIZONE® VP4 Sterilizers in the traditional low temperature sterilization market in the United States and Europe, and will continue to work collaboratively with Getinge with respect to launching into additional targeted international markets.

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

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

The Company will continue to pursue its 510(k) submission with US regulators for the terminal sterilization of duodenoscopes used in ERCP procedures. If awarded such claim, TSO_3's STERIZONE® VP4 Sterilizer would become the first and only validated sterilizer technology in the US with a cleared label claim for the terminal sterilization of duodenoscopes. The Company's filing is supported by laboratory data that validates that the STERIZONE® VP4 Sterilizer, with its dual sterilants of hydrogen peroxide and ozone, can terminally sterilize multi-channel flexible endoscopes with a

distal end elevator mechanism (duodenovideoscope). If received, such US clearance would match existing claims already made by the Company in Canada and Europe.

The Company also plans to make progress on several product development initiatives and plans to build a new assembly facility in the United States to complement our Canadian facility. In the second half of 2018, we expect that our combined assembly operations will be in a position to deliver sterilizers to Getinge at a pace in excess of our current capacity, and, in total, more units than we delivered in all of 2017.

Over the past years the Company has continued to invest in developing product enhancements. TSO_3 and Getinge have discussed these feature improvements, which will make installations faster and easier, and we are planning to deliver this enhanced product direct from our factories in the second half of 2018. In the interim, TSO_3 is planning to adjust, for a charge, inventory currently held by Getinge, as these product enhancements have been deliberately designed to be fully "retrofittable" with current versions of the sterilizer.

We currently anticipate using our existing cash resources to fund these various initiatives.

Management Discussion and Analysis

This management discussion and analysis (MD&A) is intended to help readers assess the consolidated financial position and consolidated financial performance of TSO_3 Inc. for the three-month and nine-month periods ended September 30, 2017 and to compare them with the three-month and nine-month periods ended September 30, 2016. This information is dated November 6, 2017 and should be read in conjunction with the Interim Condensed Consolidated Unaudited Financial Statements and the accompanying notes. Unless specified otherwise, all amounts are stated in US dollars.

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

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

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

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

Forward Looking Statements

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

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

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

- The compatibility of medical instruments with the Company's technology.

These forward-looking statements involve risks and uncertainties relating to, among other things, commercial operations, compatibility, biocompatibility, research and development projects, dependency on key personnel, management of business growth, intellectual property and counterfeiting, competition, product liability issues, litigation, regulatory approvals and financial instruments. Actual results and developments are likely to differ, and may differ materially, from those expressed or implied by the forward-looking statements. Factors that could cause actual results to differ materially include, but are not limited to, the risk factors described under the section "Risk factors" in the Annual MD&A of the Company for the year ended December 31, 2016, which reflect to the Company's knowledge, the material risks and uncertainties it faced as at November 6, 2017, the date of filing for the third fiscal quarter of 2017. Disclosure contained in this document is current to that date, unless otherwise stated.

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

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

Summary of Results

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

	Third Quarter		Nine months	
	2017	2016	**2017**	2016
	$	$	**$**	$
Revenues	**5,105**	3,507	**13,946**	9,555
Cost of sales	**3,102**	2,368	**8,613**	6,472
Gross profit	**2,003**	1,139	**5,333**	3,083
Expenses				
Research and development	**1,562**	806	**4,456**	2,215
Selling, general and administrative	**2,131**	1,841	**6,735**	4,755
Financial expenses (income)	**48**	(50)	**58**	(1,637)
Total Expenses	**3,741**	2,597	**11,249**	5,333
Net loss before income taxes	**(1,738)**	(1,458)	**(5,916)**	(2,250)
Income taxes	**33**	15	**89**	62
Net loss and comprehensive loss	**(1,771)**	(1,473)	**(6,005)**	(2,312)
Weighted average number of outstanding shares (in thousands)	**92,842**	91,681	**92,258**	90,432
Basic and diluted net loss per share	**(0.02)**	(0.02)	**(0.07)**	(0.03)
Basic and diluted net comprehensive loss per share	**(0.02)**	(0.02)	**(0.07)**	(0.03)

Results Analysis

Below, the Company discusses the variations of certain accounts within the third quarters of 2017 and 2016 and within the nine-month period ended September 30, 2017 and 2016.

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

REVENUES

For the third quarter of 2017, revenues equalled $5.1 million, as compared to $3.5 million in the third quarter of 2016. TSO_3 shipped 44 STERIZONE® VP4 Sterilizers to Getinge and recorded $0.2 million of Getinge licensing revenue in the third quarter of 2017, as compared to 30 units shipped and $0.1 million of licensing revenue in the same period in 2016. For the nine-month period ended September 30, 2017, revenue were $13.9 million as compared to $9.6 million for the same period in 2016. Sales of the Company's proprietary consumables in the third quarter and first nine-months of 2017 also grew relative to the same periods in 2016 as a result of increased installations of the Company's STERIZONE® VP4 Sterilizer, contributing to the Company's total revenue growth and offsetting a decline in accessory revenue in the same periods. Similarly, consumables related revenues grew 26% in the third quarter of 2017 relative to the second quarter of 2017.

NET LOSS

In the third quarter of 2017, net loss and comprehensive loss totaled $1.8 million or ($0.02) per share, as compared to a net loss of $1.5 million or ($0.02) per share in the third quarter of 2016. For the nine-month period ended September 30, 2017, net loss and comprehensive loss totaled $6.0 million, as compared to a net loss and comprehensive loss of $2.3 million when excluding the $1.6 million non-recurring foreign exchange translation gain recorded as a result of the conversion of Canadian dollars into US dollars during the first quarter of 2016.

In the third quarter of 2017, gross profit increased by $0.9 million, as compared to the same period last year and by $2.3 million for the nine-month period, mainly related to increased unit sales of the STERIZONE® VP4 Sterilizer to Getinge offset by the increase of investments of $0.8 million made in research and development activities for the third quarter and $2.2 million for the nine-month period and $0.3 million in sales, general and administrative activities to support the business for the third quarter and $2.0 million for the nine-month period.

In the third quarter of 2017, $0.3 million of the increase in expenses resulted from growth in recorded non-cash stock compensation expense as compared to the same period last year, and by $1.0 million for the nine-month period ended September 30, 2017. Share-based compensation amortization grew as the Company issued stock options to new and existing employees and, as a result of the price of TSO_3 stock being higher at the time of grant than in prior periods, the Black-Scholes value of each option, which is the basis on which the Company calculates stock compensation expense, was higher.

For the third quarter of 2017, no material events occurred which would have impacted its comprehensive loss.

Supplemental Non-IFRS Financial Measures

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

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

Management also believes these measures can be useful in assessing the Company's capacity to discharge its financial obligations.

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

IFRS TO NON-IFRS ADJUSTED EBITDA RECONCILIATION

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

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

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

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

EXPENSES

Foreign Exchange Impact

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

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

In the third quarter of 2017, total expenses denominated in Canadian dollars were CAD$4.0 million, as compared to CAD$4.1 million in the third quarter of 2016. The average USD/CAD foreign exchange rate in the third quarter of 2017 was 0.7983 as compared to 0.7665 in the third quarter of 2016, which is reflected in an increase in expenses of 4% year over year upon conversion to USD.

From a quarterly sequential perspective, the USD/CAD foreign exchange rate in the third quarter of 2017 was 0.7983, as compared to 0.7437 in the second quarter of 2017, which is reflected in an increase in expenses of 7% quarter over quarter upon conversion to USD.

Cost of sales

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

For the three-month period ended September 30, 2017, cost of sales amounted to $3.1 million, as compared to $2.4 million for the same period in 2016. For the nine-month period ended September 30, 2017, cost of sales amounted to $8.6 million, as compared to $6.5 million for the same period in 2016. In the third quarter of 2017, TSO_3 shipped 44 STERIZONE® VP4 Sterilizers, as compared to 30 sterilizers in the same quarter of 2016; for the nine-month period of 2017, TSO_3 shipped 120 STERIZONE® VP4 Sterilizers as compared to 80 for the same period last year.

Gross profit was $2.0 million, or 39% of revenue in the third quarter of 2017, as compared to $1.1 million, or 32% of revenue in the third quarter of 2016. For the nine-month period ended September 30, 2017, gross profit amounted to $5.3 million, or 38% of revenue, as compared to $3.1 million, or 32% of revenue, for the same period in 2016. This increase in gross margin contribution in 2017 resulted from growth of higher gross margin consumables sales and production cost reductions of STERIZONE® VP4 Sterilizers which, more than offset a decrease in accessories revenues on a year-over-year basis.

In the third quarter of 2017, total cost of sales related expenses denominated in Canadian dollars were CAD$2.6 million, as compared to CAD$2.3 million in the third quarter of 2016. Cost of sales increases by $0.1 million, or 2% of sales, due to foreign exchange movement as compared to last year and by $0.2 million, or 4% of sales, on a quarterly sequential perspective. As a result of CAD/USD foreign exchange rate fluctuations, cost of sales increased $0.1 million, or 2% of sales, as compared to the third quarter of 2016, and by $0.2 million, or 4% of sales, as compared to the second quarter of 2017.

Research and development

For the quarter ended September 30, 2017, research and development expenses were $1.6 million, as compared to $0.8 million for the same period in 2016. For the nine-month period ended September 30, 2017, these expenses were $4.5 million, as compared to $2.2 million in 2016. For the three-month period ended September 30, 2017, the Company incurred $0.3 million of additional expenses related to material purchases, equipment maintenance, depreciation and building expenses to run the laboratory in Myrtle Beach and have incurred $0.6 million of additional expenses for the nine-month period for the same type of expenses. Also, these expenses were for extended endoscope regulatory claims, other endoscope and medical device compatibility studies for its STERIZONE® VP4 Sterilizer. To support project development and the new laboratory, the Company also increased salary, share-based compensation, travelling expenses and professional fees by $0.5 million in the third quarter of 2017 as compared to the same period last year and have incurred $1.7 million in addition for the nine-month period as compared to last year. In the third quarter of 2017, total research and development expenses denominated in Canadian dollars were CAD$0.6 million, as compared to CAD$0.8 million in the third quarter of 2016.

Selling, General and Administrative (SG&A)

Selling, general and administrative (SG&A) include marketing, sales and service and administrative expenses. SG&A expenses were $2.1 million for the quarter ended September 30, 2017, as compared to $1.8 million for the the same period in 2016, with $0.2 million of this growth as a result of an increase in non-cash stock compensation expense. For the nine-month period ended September 30, 2017, these expenses were $6.7 million, as compared to $4.8 million in 2016, with $0.7 million of this growth resulting from non-cash stock compensation expense. In the third quarter of 2017, total SG&A

expenses denominated in Canadian dollars were CAD$0.8 million, as compared to CAD$1.0 million in the third quarter of 2016.

During the first nine months of 2017, as compared to the same period in 2016, the Company incurred an additional $0.9 million in salary, travelling and recruiting fees as it expanded its management team, and $0.1 million in professional fees associated with commercialization, marketing and administration.

Share-based compensation expense

For the quarter ended September 30, 2017, non-cash share-based compensation amortization amounted to $0.6 million, as compared to $0.3 million for the same period in 2016. For the nine-month period ended September 30, 2017, theses expenses amounted to $1.8 million, as compared to $0.8 million for the same period in 2016.

As at September 30, 2017, the Company had 6.2 million stock options oustanding, as compared to 5.3 million at the same date in 2016. Share-based compensation amortization grew as the Company issued more stock options to new and existing employees, and the Black-Scholes value of each option was higher as a result of a higher underlying stock price at the time of grant.

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

Financial expenses (income)

For the quarter and nine-month period ended September 30, 2017, along with the third quarter of 2016, financial expenses were not significant and comparable. Financial expenses recorded in the first nine months of 2016 included a $1.6 million significant change in foreign exchange translation gain recorded as a result of the conversion of Canadian dollars into US dollars during the first quarter of 2016.

Financial Position Analysis

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

	September 30, 2017	December 31, 2016
	$	$
Cash, cash equivalents and investments (short and long term)	**16,109**	19,260
Accounts receivable	**613**	2,318
Inventories	**2,595**	1,703
Property, plant and equipment	**2,944**	2,357
Intangibles assets	**1,885**	1,836
Accounts payable, accrued liabilities and deferred income tax liabilities	**2,862**	2,381
Warranty provision	**1,103**	575
Deferred revenues (short and long term)	**6,307**	6,949
Equity	**14,039**	17,671

Liquid Assets

As at September 30, 2017, cash, cash equivalents and investments amounted to $16.1 million, as compared to $19.3 million as at December 31, 2016.

In the third quarter and for the first nine months of 2017, the Company used approximately $0.8 million and $3.5 million respectively in cash from operations, excluding the effects of changes in working capital, as compared to $1.1 million and $2.9 million for the same period in 2016 (when excluding the

one-time $1.6 million foreign exchange translation gain). In the third quarter the Company used $0.2 million in cash for non-cash working capital to support our growing business, as compared to $0.3 million during the same period in 2016. In the first nine months of 2017 the Company generated $0.9 million in cash from non-cash working capital as compared to $3.1 million used during the same period in 2016.

Accounts Receivable

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

Inventories

As at September 30, 2017, inventories amounted to $2.6 million, as compared to $1.7 million as at December 31, 2016.

	September 30, 2017 $	December 31, 2016 $
Raw Materials	**1,728**	1,023
Work in Progress	**370**	137
Finished Goods	**497**	543
	2,595	1,703

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

Property, Plant and Equipment

Property, plant and equipment, net of depreciation, amounted to $2.9 million as at September 30, 2017 which is $0.6 million higher compared to December 31, 2016. During the nine-month period, TSO_3 acquired a total of $1.1 million in property, plant and equipment. Of this amount, $0.4 million was acquired in equipment and tools, $0.4 million in medical devices and $0.3 million in sterilizers for use in its laboratories. Depreciation increased by $0.6 million during the nine-month period.

Intangible Assets

Intangible assets, net of amortization, increased from $1.8 million at the end of 2016 to $1.9 million as at September 30, 2017. Amortization increased by $0.1 million during the nine-month period.

Accounts Payable, Accrued Liabilities and Deferred Income Tax Liabilities

As at September 30, 2017, accounts payable, accrued liabilities and deferred income tax liabilities amounted to $2.9 million, which is $0.5 million higher compared to December 31, 2016. The increase is due to trade payables mainly related to the increase in raw material purchases, in accrued salary and in property plant and equipment investments to support production and research departments. As at September 30, 2017 the Company recorded $0.2 million as deferred income tax liabilities as compared to $0.1 million as at December 31, 2016.

Deferred Revenues

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

During the third quarter of 2017, the Company recorded $0.2 million of license revenue, which is recorded as revenue as services are rendered and products are delivered over the term of the Getinge Agreement, as compared to $0.1 million in 2016. The increase in license revenue is consistent with 44 units being shipped in the third quarter of 2017, compared to 30 units in comparable quarter.

Shareholders' Equity

As at September 30, 2017, Shareholders' Equity amounted to $14.0 million, as compared to $17.7 million as at December 31, 2016. The variation is mainly the result of the absorption of the operating deficit incurred during the first nine months of 2017 partially offset by $1.8 million in share-based compensation recognized during the same period.

As at September 30, 2017, the number of outstanding shares was 92,854,304 (91,977,214 as at December 31, 2016). As of November 6, 2017, the date of filing for the third fiscal quarter of 2017, the number of outstanding shares was 92,854,304.

Cash Flows Analysis

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

	Nine months	
	2017	2016
	$	$
Operating Activities	**(2,457)**	(4,337)
Investing Activities	**6,861**	(14,955)
Financing Activities	**540**	10,817

Operating Activities

Cash used by the operating activities amounted to $2.4 million for the nine-month period ended September 30, 2017, as compared to $4.3 million used during the corresponding period in 2016. In the third quarter of 2017, the Company generated $0.2 million in cash from working capital adjustments ($0.3 million generated in 2016), and consumed $0.8 million in net loss after adjusting for non-cash items ($1.1 million in net loss in 2016 including the $1.6 million foreign exchange translation gain from the translation of Canadian dollars into US dollars).

Investing Activities

For the nine-month period ended September 30, 2017, investing activities generated $6.8 million, as compared to $15.0 million consumed during the same period in 2016; an increase resulting from the net disposal of $8.1 million in short and long term investments and the purchase of $1.3 million in property plant and equipment and intangible assets in the nine-month period of 2017, as compared to $14.1 million of net acquisition in invesments and $0.9 million in property plant and equipment and intangible assets in the same period last year.

Financing Activities

For the nine-month period ended September 30, 2017, financing activities generated $0.5 million as compared to $10.8 million for the same period in 2016. The total amount generated in the third quarter of 2017 was from options exercised while $10.1 million in the first quarter of 2016 was from warrant exercises expiring in February 2016.

Summary of Quarterly Results

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

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

			2017				2016	2015
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Revenues	**5,105**	4,630	4,211	3,746	3,507	2,977	3,071	151
Net income (loss)	**(1,771)**	(2,254)	(1,980)	(2,068)	(1,473)	(1,487)	649	(2,160)
Net income (loss) per Share (basic, in $)	**(0.02)**	(0.02)	(0.02)	(0.02)	(0.02)	(0.02)	0.01	(0.03)

Segmented Information

The Company has one operating segment.

	Third quarter		Nine months	
Revenues	**2017**	2016	**2017**	2016
Canada and Worldwide	**73**	51	**270**	218
United States	**5,032**	3,456	**13,676**	9,337
	5,105	3,507	**13,946**	9,555

	September 30, 2017			December 31, 2016		
	Inventories	**Property, Plant and Equipment**	**Intangible Assets**	Inventories	Property, Plant and Equipment	Intangible Assets
Canada and Worldwide	**2,249**	**1,171**	**1,867**	1,638	1,069	1,836
United States	**346**	**1,773**	**18**	65	1,288	-
	2,595	**2,944**	**1,885**	1,703	2,357	1,836

For the third quarter of 2017, revenue from Getinge represented 98% of the Company's total revenues in conjunction with the Getinge Agreement (99% for the same period in 2016).

Off-Balance Sheet Arrangement

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

Additional Disclosure – Unrecorded Tax Assets

The Company has accumulated a substantial amount of tax losses, unclaimed expenses and tax credits that could be claimed in the future to reduce income taxes. The related deferred income tax assets will be recorded on the Condensed Consolidated Financial Statements only when the Company concludes that these tax assets will probably be materialized by shielding profits from taxes, or otherwise. If the Company had reached this conclusion on September 30, 2017, $22.0 million in tax assets, as compared to $20.0 million as at December 31, 2016, would have been recorded based on an effective rate of 15% for federal taxes and 11.5% for provincial taxes (15% for federal taxes and 11.9% for provincial taxes as at December 31, 2016).

Financial Instruments

The reader is refered to note 13 of the Company's Annual Audited Consolidated Financial Statements for the year ended December 31, 2016 and note 6 of the Interim Unaudited Consolidated Financial Statements for the quarter ended September 30, 2017 for a detailed presentation of financial instruments.

Capital Resources

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

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

The Company invests its funds in highly liquid short-term investments as required by its Investment Policy (see section on Risk Factors presented in the Annual Management Discussion and Analysis of the Company for the year ended December 31, 2016). These securities are chosen on the basis of foreseen cash requirements and safety.

Accounting Policies

The reader is refered to notes 2 and 3 of the Company's Annual Audited Consolidated Financial Statements for the year ended December 31, 2016 and Interim Consolidated Financial Statements for the quarter ended September 30, 2017 for a detailed presentation of accounting policies, critical accounting judgments, key source of estimation uncertainty and future accounting changes.

Risk Factors

The Company operates in industry segments that have a variety of risk factors and uncertainties. TSO_3 hereby incorporates by reference the risks and uncertainties described in our Annual Management Discussion and Analysis of the Company for the year ended December 31, 2016 which reflect, to its knowledge, the material risks and uncertainties the Company faced as at September 30, 2017.

Disclosure Controls and Procedures and Internal Controls over Financial Reporting

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

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

processed, summarized and reported within the prescribed time periods under securities legislation as of September 30, 2017.

Also, the CEO and the CFO have designed ICFR, or have caused it to be designed under their supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Interim Financial Statements for financial reporting purposes in accordance with IFRS as of September 30, 2017.

Changes in internal controls over financial reporting

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

INTERIM CONDENSED CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS

For the three-month and nine-month periods ended September 30, 2017 and 2016

Interim Condensed Consolidated Statements of Loss and Comprehensive Loss

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

		Third Quarter		Nine months	
		2017	2016	**2017**	2016
	Notes	**$**	$	**$**	$
Revenues		**5,105**	3,507	**13,946**	9,555
Cost of sales	**5**	**3,102**	2,368	**8,613**	6,472
Gross profit		**2,003**	1,139	**5,333**	3,083
Expenses					
Research and development	**5**	**1,562**	806	**4,456**	2,215
Selling, general and administrative	**5**	**2,131**	1,841	**6,735**	4,755
Financial expenses (income)	**4**	**48**	(50)	**58**	(1,637)
Total Expenses		**3,741**	2,597	**11,249**	5,333
Net loss before income taxes		**(1,738)**	(1,458)	**(5,916)**	(2,250)
Income taxes		**33**	15	**89**	62
Net loss and total comprehensive loss		**(1,771)**	(1,473)	**(6,005)**	(2,312)
Basic and diluted net loss per share	**17**	**(0.02)**	(0.02)	**(0.07)**	(0.03)
Basic and diluted net comprehensive loss per share	**17**	**(0.02)**	(0.02)	**(0.07)**	(0.03)

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

Interim Condensed Consolidated Statements of Changes in Equity

(Unaudited, in thousands of US dollars)

	Notes	Share Capital $	Reserve-Share-based Compen-sation $	Reserve – Warrants $	Deficit $	Other comprehen-sive income $	Total $
Balance at January 1, 2016		98,817	3,990	493	(91,455)	(1,712)	10,133
Options exercised	13	1,032	(360)	-	-	-	672
Warrants exercised	12,14	10,486	-	(391)	-	-	10,095
Warrants expired	14	-	-	(102)	102	-	-
Share-based compensation	13	-	817	-	-	-	817
Net loss for the period		-	-	-	(2,312)	-	(2,312)
Balance at September 30, 2016		110,335	4,447	-	(93,665)	(1,712)	19,405
Balance at October 1, 2016		110,335	4,447	-	(93,665)	(1,712)	19,405
Options exercised	13	71	(24)	-	-	-	47
Share-based compensation	13	-	286	-	-	-	286
Net loss for the period		-	-	-	(2,067)	-	(2,067)
Balance at December 31, 2016		110,406	4,709	-	(95,732)	(1,712)	17,671
Balance at January 1, 2017		110,406	4,709	-	(95,732)	(1,712)	17,671
Options exercised	12,13	809	(269)	-	-	-	540
Share-based compensation	13	-	1,833	-	-	-	1,833
Net loss for the period		-	-	-	(6,005)	-	(6,005)
Balance at September 30, 2017		111,215	6,273	-	(101,737)	(1,712)	14,039

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

Interim Condensed Consolidated Statements of Financial Position

(Unaudited, in thousands of US dollars)

	Notes	September 30, 2017 $	December 31, 2016 $
Current Assets			
Cash and Cash Equivalents	6	**7,642**	2,698
Short-term Investments	6	**8,467**	15,064
Accounts Receivable	7	**613**	2,318
Inventories	8	**2,595**	1,703
Prepaid Expenses		**165**	102
		19,482	21,885
Non-current Assets			
Long-term Investments	6	**-**	1,498
Property, Plant and Equipment	9	**2,944**	2,357
Intangible Assets	10	**1,885**	1,836
		4,829	5,691
		24,311	27,576
Current Liabilities			
Accounts Payable and Accrued Liabilities	6	**2,664**	2,272
Warranty Provision		**1,103**	575
Deferred Revenues	11	**1,103**	1,004
		4,870	3,851
Non-current Liabilities			
Deferred Income Tax Liabilities		**198**	109
Deferred Revenues	11	**5,204**	5,945
		10,272	9,905
Equity			
Share Capital	12	**111,215**	110,406
Reserve – Share-based Compensation	13	**6,273**	4,709
Deficit		**(101,737)**	(95,732)
Accumulated Other Comprehensive Loss		**(1,712)**	(1,712)
		14,039	17,671
		24,311	27,576

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

Interim Condensed Consolidated Statements of Cash Flows

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

	Notes	Nine months 2017 $	2016 $
Cash flows from operating activities			
Net loss		**(6,005)**	(2,312)
Adjustments for:			
Depreciation and amortization		**715**	328
Loss on write-down of property, plant and equipment		**39**	-
Deferred income tax liabilities		**89**	-
Share-based compensation	13	**1,833**	817
Investment income	4	**(138)**	(131)
		(3,467)	(1,298)
Changes in non-cash operating working capital items	15	**883**	(3,134)
Interest received		**127**	95
Cash flows used in operating activities		**(2,457)**	(4,337)
Cash flows from investing activities			
Acquisition of investments		**(2,909)**	(22,917)
Disposal of investments		**11,015**	8,845
Acquisition of property, plant and equipment	9	**(1,057)**	(635)
Acquisition of intangible assets	10	**(190)**	(248)
Proceed from disposal of property, plant and equipment	9	**2**	-
Cash flows generated by investing activities		**6,861**	(14,955)
Cash flows from financing activities			
Options exercised	12	**540**	672
Warrants exercised	12, 14	**-**	10,145
Cash flows generated by financing activities		**540**	10,817
Increase (decrease) in cash and cash equivalents		**4,944**	(8,475)
Cash and cash equivalents at the beginning		**2,698**	12,654
Cash and cash equivalents at the end		**7,642**	4,179

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

Notes to the Interim Condensed Consolidated Financial Statements

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

1. Description of Business

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

2. Accounting Policies

Statement of Compliance

The Interim condensed consolidated unaudited financial statements ("financial statements") are prepared in compliance with International Accounting Standard 34 – Interim Financial Reporting ("IAS 34"). Accordingly, certain information and footnote disclosure normally included in annual financial statements prepared in accordance with International Financial Reporting Standards (IFRS) and applicable as at September 30, 2017 have been omitted or condensed. As such, these financial statements should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2016. The financial statements were prepared using the same basis of presentation, accounting policies and methods of computation as outlined in Note 2, *accounting policies* in our consolidated financial statements for the year ended December 31, 2016. The financial statements do not include all of the notes required in annual financial statements.

3. Future Accounting Changes

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

The IASB also published IFRS 15 - Revenue from Contracts with Customers, which replaces all the revenue standards and interpretations in IFRS, including IAS 11 - Construction Contracts and IAS 18 - Revenue. The IFRS 15 is effective for annual periods beginning on or after January 1, 2018. Early adoption is permitted for IFRS 15. The Company has continued to advance on its IFRS 15 implementation project, however, it does not have a reliable estimate of the quantitative impact of the new standard at this time. The company will complete its assessment and quantification of the impact of the standard during the fourth quarter.

Notes to the Interim Condensed Consolidated Financial Statements

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

3. Future Accounting Changes (cont'd)

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

In December 2015, IASB published an amendment which defers the application to financial statements beginning on or after a date to be determined. Early adoption is permitted. To date, the Company does not expect the new standard to result in material changes.

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

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

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

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

4. Financial expenses (income)

	Third Quarter		Nine months	
	2017	2016	**2017**	2016
	$	$	**$**	$
Financial Income				
Investment Income	**(47)**	(65)	**(138)**	(131)
Foreign Exchange Gain	-	-	-	(1,536)
	(47)	(65)	**(138)**	(1,667)
Financial Expenses				
Bank Charges	**13**	14	**38**	30
Factoring Cost	**25**	-	**63**	-
Foreign Exchange Loss	**57**	1	**95**	-
	95	15	**196**	30
Total Financial Expenses (Income)	**48**	(50)	**58**	(1,637)

Notes to the Interim Condensed Consolidated Financial Statements

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

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

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

	Third quarter		Nine months	
	2017	2016	**2017**	2016
	$	$	**$**	$
Salary and Other Benefits	**1,654**	1,364	**5,368**	4,054
Share-based compensation expense	**632**	333	**1,833**	817
Depreciation of Property, Plant and Equipment	**276**	103	**575**	201
Amortization of Intangible Assets	**50**	44	**140**	127
Research and Development Tax Credits	**(85)**	(41)	**(145)**	(143)

6. Financial Instruments

Cash and Cash Equivalents

	September 30, 2017	December 31, 2016
	$	$
Cash	**7,642**	2,698

Investments

	September 30, 2017	December 31, 2016
	$	$
Short-term Investments		
Bank Guaranteed Investment Certificates	**-**	2,015
Bonds	**8,467**	13,049
	8,467	15,064
Long-term Investments		
Bonds	**-**	1,498
	8,467	16,562

Investments were rated A+ or better and had an average yield of 1.11% as at September 30, 2017.

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

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

No transfers between Level 1 and Level 2 of the fair value hierarchy occurred during the quarter ended September 30, 2017 (none in 2016).

Notes to the Interim Condensed Consolidated Financial Statements

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

6. Financial Instruments (cont'd)

Accounts Receivable

	September 30, 2017 $	December 31, 2016 $
Accounts Receivable	**613**	2,318

Accounts Payable and Accrued Liabilities

	September 30, 2017 $	December 31, 2016 $
Accounts Payable and Accrued Liabilities	**2,664**	2,272

7. Accounts Receivable

	September 30, 2017 $	December 31, 2016 $
Receivables from Clients	**96**	2,025
Government Credits Receivable	**517**	293
	613	2,318

There was no bad debt allowance as at September 30, 2017 nor as at December 31, 2016.

8. Inventories

	September 30, 2017 $	December 31, 2016 $
Raw Materials	**1,728**	1,023
Work in Progress	**370**	137
Finished Goods	**497**	543
	2,595	1,703

9. Property, Plant and Equipment

During the nine-month period ended September 30, 2017, the Company acquired a total of $1.1 million in property, plant and equipment. Of this amount, $0.4 million related to equipment and tools, $0.4 million in medical devices and $0.3 million in STERIZONE® VP4 Sterilizers to be used in the Company's laboratories. During the year ended December 31, 2016, the Company acquired $1.1 million in equipment and tools, marketing demonstration equipment, medical devices in the Company's laboratories in Canada and in the United States, computer equipment and leasehold improvements; and also capitalized $1.2 million for STERIZONE® VP4 Sterilizers used internally.

Notes to the Interim Condensed Consolidated Financial Statements

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

10. Intangible Assets

During the nine-month period ended September 30, 2017, the Company acquired $0.2 million of new patents and software. During the year ended December 31, 2016, the Company acquired $0.3 million in patents, trademarks and website.

11. Deferred Revenues

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

The $7.5 million received was recorded as deferred revenue, and will be recognized over the duration of the agreement.

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

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

12. Share Capital

Authorized:

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

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

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

Issued:

	September 30, 2017		December 31, 2016	
Issued and Paid	**Number of Common Shares**	**$**	Number of Common Shares	$
Balance at Beginning	**91,977,214**	**110,406**	83,324,789	98,817
Options Exercised	**877,090**	**809**	969,825	1,103
Warrants Exercised	**-**	**-**	7,682,600	10,486
Balance at the End	**92,854,304**	**111,215**	91,977,214	110,406

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

Notes to the Interim Condensed Consolidated Financial Statements

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

12. Share Capital (cont'd)

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

During the third quarter ended September 30, 2017, pursuant to the Company's Stock Option Plan, 111,600 stock options were exercised for an aggregate cash consideration of $0.2 million. During the year ended December 31, 2016, 969,825 options were exercised for an aggregate cash consideration of $0.7 million.

Employee Stock Purchase Plan

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

Deferred Share Unit Plan

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

As at September 30, 2017, the number of DSUs awarded amounted to 0.1 million (0.1 million as at September 30, 2016). During the nine-month period ended September 30, 2017, the Company recorded a compensation expense of $0.2 million ($0.8 million as at September 30, 2016) for its deferred share unit plan.

13. Reserve – Share-Based Compensation

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

During the nine-month period ended September 30, 2017, the Company awarded 0.7 million stock options, (1.8 million for the same period in 2016) at a weighted average exercise price of $2.43 or CAD$3.03 ($1.79 or CAD$2.39 for the same period in 2016). The weighted average fair value of these stock options was $1.51 or CAD$1.88 for the nine-month period of 2017 ($0.86 or CAD$1.15 for the same period in 2016).

Notes to the Interim Condensed Consolidated Financial Statements

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

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

The share-based compensation expense pertaining to the award of options is amortized using the graded vesting method and represents a share-based compensation expense of $1.8 million for the nine-month period ended September 30, 2017 ($0.8 million for the same period in 2016) presented in the Interim Condensed Consolidated Statements of Loss in the functions based on the option holders.

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

	September 30, 2017	December 31, 2016
Weighted Average Share Price	**$2.43**	$1.88
Exercise Price	**$2.43**	$1.88
Risk Free Interest Rate	**1.40%**	1.15%
Estimated Share Price Volatility	**61%**	59%
Expected Life	**8 years**	8 years
Expected Dividend Yield	**0%**	0%

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

	Number	**September 30, 2017 Weighted Average Exercise Price $**	Number	December 31, 2016 Weighted Average Exercise Price $
Outstanding at beginning	**7,024,231**	**1.39**	4,993,568	0.89
Granted	**797,080**	**2.18**	3,516,137	1.88
Exercised	**(877,090)**	**0.65**	(969,825)	0.74
Expired	**(19,600)**	**2.05**	(73,203)	0.81
Forfeited	**(743,335)**	**2.30**	(442,446)	1.09
Outstanding at end	**6,181,286**	**1.61**	7,024,231	1.39
Exercisable at end	**2,600,401**	**1.21**	2,637,905	0.77

Notes to the Interim Condensed Consolidated Financial Statements

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

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

The following table summarizes certain information regarding the stock options of the Company as at September 30, 2017:

	Outstanding Options		Exercisable Options	
Exercise Price	Number	Average Remaining Contractual Life (years)	Number	Average Remaining Contractual Life (years)
$0.00 (DSU's)	144,467	Undetermined	102,802	Undetermined
$0.01 to $0.85	875,667	3.17	875,667	3.17
$0.86 to $1.69	2,577,567	6.71	1,381,227	5.40
$1.70 to $2.91	2,583,585	9.06	240,705	7.84
	6,181,286	8.96	2,600,401	7.91

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

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

14. Reserve – Warrants

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

During the first quarter of 2015, 9.2 million warrants were issued to purchasers of units on the closing date of the bought deal offering by prospectus in March 2015. The warrants were subject to an accelerated expiry if at any time after September 30, 2015, the published closing trade price of the Company's common shares on the TSX was equal to or greater than $1.52 (CAD$2.00) for 10 consecutive trading days. These warrants, allowed their holders to purchase 9.2 million shares at a price of $1.43 (CAD$1.88) per share until their March 5, 2017 expiry.

Notes to the Interim Condensed Consolidated Financial Statements

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

14. Reserve - Warrants (cont'd)

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

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

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

15. Additional Information Relating to Cash Flows

	Nine months	
	2017	2016
	$	$
Changes in Non-Cash Operating Working Capital Items		
Decrease (Increase) in Assets		
Accounts Receivable	**1,705**	(3,197)
Inventories	**(892)**	(798)
Prepaid Expenses	**(63)**	(35)
Increase (Decrease) in Liabilities		
Accounts Payable and Accrued Liabilities	**392**	1,830
Warranty Provision	**528**	-
Current Deferred Revenues	**99**	(463)
Non-Current Deferred revenues related to the License Fee	**(741)**	-
	1,028	(2,663)
Warrants exercised receivable	**-**	(50)
Property, Plant and Equipment Transferred to Inventories	**26**	-
Inventories transferred to Property, Plant and Equipment	**(171)**	(421)
	883	(3,134)
Research and Development Tax Credits		
Received	**155**	199

16. Segmented Information

The Company has one operating segment.

	Third quarter		Nine months	
Revenues	**2017**	2016	**2017**	2016
Canada and Worldwide	**73**	51	**270**	218
United States	**5,032**	3,456	**13,676**	9,337
	5,105	3,507	**13,946**	9,555

Notes to the Interim Condensed Consolidated Financial Statements

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

16. Segmented Information (cont'd)

	September 30, 2017			December 31, 2016		
	Inventories	**Property, Plant and Equipment**	**Intangible Assets**	Inventories	Property, Plant and Equipment	Intangible Assets
Canada and Worldwide	**2,249**	**1,171**	**1,867**	1,638	1,069	1,836
United States	**346**	**1,773**	**18**	65	1,288	-
	2,595	**2,944**	**1,885**	1,703	2,357	1,836

For the third quarter of 2017, revenue from Getinge represented 98% of the Company's total revenues in conjunction with the Getinge Agreement (99% for the same period in 2016).

17. Loss per Share

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

In thousands of US $, except per share amounts	**Third Quarter**		**Nine months**	
	2017 $	2016 $	**2017 $**	2016 $
Net loss				
Basic and Diluted	**(1,770)**	(1,473)	**(6,005)**	(2,312)
Number of Shares				
Weighted Average Number of Outstanding Shares (in thousands)	**92,842**	91,681	**92,258**	90,432
Number of Shares				
Weighted Average Number of Outstanding Shares Diluted[(1)] (in thousands)	**92,842**[(1)]	91,681	**92,258**	90,432
Loss per Share				
Basic and Diluted	**(0.02)**	(0.02)	**(0.07)**	(0.03)
Comprehensive loss per Share				
Basic and Diluted	**(0.02)**	(0.02)	**(0.07)**	(0.03)

1) If the Company had a profit, the weighted average number of outstanding shares diluted would have been increased by 6.2 million as at September 30, 2017, (4.8 million as at September 30, 2016) for the calculation of the diluted net loss per share.

18. Approval of Financial Statements

The interim condensed consolidated financial statements were approved by the Board of Directors on November 6, 2017.