quarterly report
april may june

Q2 2006

Message from the Chief Executive Officer

Dear Shareholders:

At the beginning of the year, we redefined our strategy and built our sales force for the commercialization of the *125L Ozone Sterilizer*. We can now count on our sales and marketing team who are dedicated more than ever to the success of our flagship product. In addition to increasing sales and boosting awareness of our Company through their efforts, the mission of this team is to help the market recognize the added value of our ozone sterilization technology.

The healthcare sector, known for being conservative, is reacting positively to the arrival of our technology. Indeed, our first clients are very satisfied with the performance of the *125L* and testify to its effectiveness, in terms of the savings, the increased safety for the users, the patients and the environment, and for the ease of use.

As a case in point, one of our American referral sites, after having provided a positive testimonial and deciding in December 2005 to acquire a unit, obtained the necessary funds to purchase a *125L* unit on June 29. Several months were necessary for this major hospital, where more than 20,000 surgeries are carried out each year, to purchase the ozone sterilization technology – a long but normal acquisition process for the market where our product is used. The sales cycle for a *125L* unit is evaluated at about 12 months; as hospitals must budget for the capitalization of a device such as ours long before the actual purchase.

That's why one of our objectives this year is to consolidate our business relations with our first clients, whether they are referral sites or first buyers, as well as with the growing number of manufacturers with whom we are working very closely.

At the annual meeting of the IAHCSMM (International Association of Healthcare Central Service Material Management), held May 22 to 25, 2006, in Las Vegas, Nevada, our sales and marketing team (under the TSO_3 banner for the first time in the United States) identified more than 100 potential new clients interested in our technology. These are excellent contacts that will ensure awareness of TSO_3 in the market.

Our intention is to have more and more units in operation, functioning on a regular basis. In that way, the growing number of users can provide good references to future buyers – what they are in fact doing already. This positioning is in accord with our strategy, which, we are convinced, will ensure the best market penetration possible for the *125L Ozone Sterilizer*.

Every day, through our determination and sustained efforts, new clients are being convinced of the benefits of sterilizing with ozone. After consolidating several firm sales realized early in the year, 2006 will be a year of both continuity and growth.

Jocelyn Vézina
Chief Executive Officer

Management Report

The following information must be read in conjunction with the audited financial statements and accompanying notes.

Overview

Founded in June 1998, the Company has developed a unique new sterilization process that uses ozone as the sterilizing agent. The first device resulting from this technological platform, the *125L* Ozone Sterilizer, was designed to sterilize the new generation of surgical and diagnostic instruments made of heat-sensitive polymers. After receiving approval from Health Canada on May 3, 2002, the Company obtained clearance from the United States Food and Drug Administration (FDA) to sell the *125L* Ozone Sterilizer and the accompanying Chemical Indicator on September 3, 2003.

Internal Sales Force

In 2003, TSO_3 signed an exclusive distribution agreement with an American partner, Skytron. Wanting to market in a more autonomous way, the Company signed a transition agreement with the company *Skytron* at the beginning of 2006. This new agreement stipulates that TSO_3 and Skytron agree to a transition period during which TSO_3 will directly profit from any sales to accounts already contacted along with the distributor. As well, the Company assumes responsibility for managing all sales to customers, now and in the future, using the Company's own sales force. The original agreement with the distributor included arrangements whereby TSO_3 would transfer the product to the distributor with a discount on the suggested retail price. During the transition period, in fiscal year 2006, the Company will pay a commission to the distributor that decreases each quarter. Beginning in 2007 and beyond no commissions will be paid to this distributor. The Company believes this strategy is more effective and the additional revenues generated by this new commercialization strategy will be greater than the additional costs, thus creating more value for our shareholders.

The sales and marketing department was strengthened significantly between the second quarter of 2005 and the second quarter of 2006. The number of employees went from 10 to 19. The team in place can now profit from the contribution of 16 sales professionals who have extensive experience working with capital equipment sales to both operating rooms and central sterilization departments in hospitals.

Canadian Pilot Sites

The Company entered into agreements with six hospital centres. These hospitals have agreed to make their sterilization department facilities, personnel and equipment available for the project. These tests aim to validate the compatibility of an increasing number of instruments and packaging, and also to demonstrate to hospitals how the *125L* Ozone Sterilizer can considerably reduce direct and indirect operating costs.

As of June 30, 2006, the in-use evaluations and the transfer of property have been completed in one of the Canadian Pilot Sites. The Company anticipates concluding evaluations at the remaining pilot sites by the end of the fiscal year 2006.

American Referral Sites

The Company plans to obtain market recognition for its innovative technology by promoting the use of its *125L* Ozone Sterilizer at several prestigious hospitals in the United States. These in-use evaluations are presently ongoing and function as a trial period before using the sterilizer in a real hospital setting. The users agree to testify to their satisfaction and to act as a showcase site for the technology for future clients. In exchange, the referral site participants receive a discount on the selling price of the *125L* Ozone Sterilizer.

The principal objectives of the referral sites were: (1) to allow the users to experience the operation of the *125L* Ozone Sterilizer in a live hospital context; and (2) to receive testimonials from the referral sites to aid sales to future clients. These objectives are currently being met. The Company expects that certain pilot sites will not acquire the sterilizer at the end of the trial period, for budgetary reasons for example, and also expects that others may purchase more than one.

The Company has signed agreements with seven renowned hospital networks. By the end of the second quarter of 2006, three referral sites had completed their in-use evaluations and one had bought the sterilizer. Two sites returned the sterilizer due to budgetary constraints. The four remaining sites are still testing the sterilizers. The Company anticipates concluding evaluations at the referral sites during the fiscal year 2006.

SUMMARY OF OPERATING RESULTS
Periods ended June 30 (unaudited)

	SECOND QUARTER		SIX MONTH	
	2006	**2005**	**2006**	**2005**
SALES	**$ 300,800**	$ -	**$ 602,149**	$ -
EXPENSES				
Operating	**379,607**	208,275	**878,083**	425,745
Research & development	**421,817**	449,492	**879,946**	937,353
Marketing	**779,657**	474,673	**1,495,379**	863,427
Administrative	**648,178**	579,323	**1,515,259**	1,146,335
Financial	**6,935**	1,404	**10,302**	3,272
	2,236,194	1,713,167	**4,778,969**	3,376,132
OPERATING LOSS	**1,935,394**	1,713,167	**4,176,820**	3,376,132
OTHER REVENUES	**443,320**	75,217	**679,383**	176,039
NET LOSS	**$ 1,492,074**	$ 1,637,950	**$ 3,497,437**	$ 3,200,093

Operating Results

Periods ended June 30, 2006, compared to periods ended June 30, 2005.

Sales

Sales for the second quarter amounted to $300,800 compared to none for the same period in 2005. The Company sold two additional *125L* Ozone Sterilizers and accessories during the second quarter of 2006. For the six-month period ended June 30, 2006, sales amounted to $602,149 compared to none for the same period in 2005.

Operating

Operating Expenses were $379,607 for the three-month period ending June 30, 2006, compared to $208,275 for the same period in 2005. This figure includes the following items: device manufacturing expenses, general operating expenses and expenses attributed to the Company's Customer Service Department. For the six month period ended June 30, 2006, Operating Expenses amounted to $878,083 compared to $425,745 for the same period in 2005. The variance between these two periods can be explained by the cost of manufacturing the devices sold during these two quarters, compared to no cost for this activity for the same periods in 2005. This increase can also be attributed to a rise in maintenance, warranty costs, travelling expenses and the cost of adding two new resources to the Production Department.

Research & Development Activities

For the three-month period ended June 30, 2006, R&D expenses before tax credits amounted to $421,817 compared to $449,492 for the same period in 2005. For the six-month period ended June 30, 2006, Research and Development expenses realized a decrease of $57,407 to reach $879,946 compared to $937,353 for the corresponding period of the preceding fiscal year. These declines, between the two periods mentioned-above are explained primarily by a reduction in material purchases and scientific advisor fees. These decreases were partially offset by increases in salaries paid to the Company's R&D team.

Marketing

Marketing expenses amounted to $779,657 for the three-month period ended June 30, 2006 compared to $474,673 for the same period in 2005. For the six-month period ended June 30, 2006, marketing expenses increased $631,952 to reach $1,495,379 compared to $863,427 for the corresponding period of the preceding fiscal year. These increases are due to more intensive marketing activities. The sales and marketing team increased, between June 30, 2005 and June 30, 2006, from 10 to 19 professionals. Costs related to salaries, bonuses and commissions, as well as sales expenses, also increased. On the other hand, costs related to American referral sites have decreased between these two periods.

Administration

Administration expenses amounted to $648,178 for the three-month period ended June 30, 2006 compared to $579,323 for the same period in 2005. For the six-month period ended June 30, 2006, administration expenses increased $368,924 to reach $1,515,259 compared to $1,146,335 for the corresponding period of the preceding fiscal year. These increases are attributed to a rise in *Stock-based Compensation.* Professional fees, insurance and verification fees also contributed to the increase between these two periods. On the other hand, fees related to patents decreased.

Other Revenues

For the second quarter of 2006, the Company realized *Other revenues* of $443,320 compared to $75,217 for the same period in 2005. *Other Revenues* consists of investment revenues and R&D income tax credits. For the six-month period ended June 30, 2006, *Other Revenues* increased $503,344 to reach $679,383 compared to $176,039 for the corresponding period of the preceding fiscal year. The increases between these two periods are explained primarily by an increase in investment revenues, by an increase in R&D income tax credits, as well as the receipt of $250,000 representing the third installment from *IQ Immigrants Investisseurs Inc.*

Net Loss

The Company recorded a net loss of $1,492,074 or $0.04 per share for the second quarter of 2006, compared to a net loss of $1,637,950, or $0.05 per share, for the same period in 2005. For the six-month period ended June 30, 2006, net loss was $3,497,437, or $0.10 per share, compared to $3,200,093, also $0.10 per share for the same period in 2005.

SELECTED ELEMENTS

	JUNE 30		DECEMBER 31		
	2006	2005	2005	2004	2003
Liquid Assets (Cash & Temporary Investment)	**$ 10,717,088**	$ 8,597,024	$ 14,595,003	$ 10,678,563	$ 15,640,237
Accounts Receivable	**$ 721,500**	$ 410,738	$ 344,302	$ 332,331	$ 1,452,471
Deferred Revenues	**$ 372,584**	$ 980,793	$ 961,826	$ 36,060	$ -
Assets	**$ 18,934,240**	$ 16,163,856	$ 22,587,034	$ 18,310,919	$ 27,406,162
Short & Long Term Debt	**$ -**	$ -	$ -	$ -	$ 68,500

Liquid Assets and Financial Situation

As of June 30, 2006, cash and temporary investments amounted to $10,717,088 and accounts receivable amounted to $721,500, for a total amount of $11,438,588 compared to $9,007,762 as of June 30, 2005.

Capital payments required and the various contractual commitments in the coming fiscal years are as follows:

	2006	2007	2008
Rental Contract	**$ 18,317**	$28,355	$19,632
Referral Sites	**55,139**	-	-
R&D Contract	**96,363**	-	-
TOTAL	**$169,819**	$28,355	$19,632

Account Receivables

Account Receivables as of June 30, 2006, amounted to $721,500 compared to $410,738 for the same period in 2005. The difference between the two periods is due to an increase in accounts receivable from hospitals.

Deferred Revenues

As of June 30, 2006, Deferred Revenues amounted to $372,584 compared to a total amount of $980,793 for the same period in 2005.

Further to TSO_3 desire to market its technology in an autonomous way, the Company reached an agreement with its former distributor Skytron, which had originally agreed to buy a certain number of devices for use at American referral sites, for the reimbursement of five units during the second quarter of 2006. Of these five devices, four are still in trail-period use at referral sites in the United States; however, the amount related to these five units is not posted to *Deferred Revenues* anymore. These devices could be sold to the referral sites at the end of the trial period if expectations are fully met and there are acquisition budgets available.

SUMMARY OF QUARTERLY RESULTS

	2006		2005				2004		
($000 except loss/share)	**Q2**	**Q1**	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Sales	**301**	**301**	11	161	-	-	-	-	-
Other Revenues	**443**	**236**	197	157	75	101	82	133	335
Net Loss	**1,492**	**2,005**	1,835	1,401	1,637	1,562	1,406	1,419	1,579
Net Loss per share	**0.04**	**0.05**	0.05	0.04	0.05	0.05	0.05	0.04	0.05

Company revenues consisted of sales of units and accessories, investment income, various income tax credits and government subsidies. Overall, net losses per share have been relatively stable for the last two complete fiscal years.

SALES DEVELOPMENT

During the first two quarters of 2006, the Company sold five units. Some of these units were attributed to *Deferred Revenues* and the transfer of property of these units was also completed. Certain sales did not require any trial period.

The Company strategy of establishing referral sites is now bearing fruit. In fact, early adopters are now in a position to provide references highlighting the benefits of the ozone sterilizer to potential clients. As a result, the Company anticipates not needing to offer trial periods to future clients. Revenues from sales made in this way will be recognized when the unit will be delivered.

The pace of sales has been progressing in line with the Company's expectations. The sales cycle for a *125L* Ozone Sterilizer is long and the Company is now seeing the results of efforts made over the course of previous quarters. Indeed, the list of potential clients is continually growing, and many hospitals are pursuing the necessary approval to purchase the *125L* Ozone Sterilizer. The Company envisions a growth in sales during the last third of this fiscal year.

CAPITAL RESOURCES

Historically, the Company has funded its activities from several rounds of public and private financing, as well as from various government subsidies. Since its inception in June 1998, the Company has raised $47M from the sale of its equity.

The monthly burn-rate for the period ended June 30, 2006 was approximately $700,000. The Company anticipates that its burn-rate could increase slightly during the upcoming months and then decrease as sales accelerate.

CAPITAL RESOURCES (cont'd)

On July 7, 2005, the Company concluded private financing of \$10M. There were warrants issued as a result of this financing. There are 288,750 warrants valid until January 7, 2007 and 2,462,350 warrants valid until July 7, 2007. 417,670 warrants, issued in other circumstance, will expire during this fiscal year. If all the outstanding warrants are exercised, the Company will have close to \$7.7M in hand.

The Company believes that its current liquid assets and the amounts that will be generated by exercising the warrants would allow it to reach the break-even point.

The Company has a line of credit with which it can obtain advances up to a maximum of \$200,000. Amounts drawn on this line of credit, renewable on an annual basis, bear interest at the prime rate plus 1.5%. The Company's accounts receivable and inventories are pledged as security against this line of credit, and the Company must satisfy certain financial ratios commonly found in this type of loan. This line of credit had not been used as of June 30, 2006.

The Company has entered into a non-refundable financial contribution agreement with *IQ Immigrants Investisseurs Inc.,* under which and upon reaching specific objectives, the Company can receive a contribution totalling \$1,000,000 payable in four annual instalments of \$250,000.

The Company received the first two instalments in 2002 and 2003, totalling \$500,000. The third instalment was received during the second quarter of 2006. The Company expects the fourth in 2006, by which time the objectives established in the agreement will have been reached.

As of July 21, 2006 the number of outstanding shares was 36,569,701.

OFF-BALANCE SHEET TRANSACTION

The Company made no off-balance sheet transaction.

TRANSACTIONS WITH RELATED PARTIES

The Company leases its premises from a company owned by the Company's shareholders.

Over the two first quarters of 2006 and the last two complete fiscal years, the Company has made the following related transactions, assessed at fair market value:

	SIX MONTHS		TWELVE MONTHS	
	06/06/30	05/06/30	2005	2004
Rent	**$ 28,902**	$ 28,280	$ 56,560	$ 55,560
Other Rent-Related Expenses	**43,810**	39,451	73,462	60,650
	$ 72,712	$ 67,731	$130,022	$116,210

CRITICAL ACCOUNTING POLICIES

The Company financial statements are prepared in accordance with Generally Accepted Accounting Principles in Canada ("G.A.A.P."). The Company's critical accounting policies include the use of estimates, revenue recognition, the recording of research and development expenses and the determination of the useful lives or fair value of goodwill and intangible assets. Some of our critical accounting policies require the use of judgment in their application or require estimates of inherently uncertain matters.

We believe that these policies, described hereafter, are critical and require the use of complex judgment in their application:

Use of estimates

The preparation of financial statements, in accordance with Canadian Generally Accepted Accounting Principles, requires management to make estimates and assumptions that affect the recorded amounts of assets and liabilities, the disclosure of contingent assets and liabilities as of the date of the financial statements and the disclosure of contingencies at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Since the process for presenting financial information presupposes the use of estimates, actual results could differ from the information presented.

Intangible assets are acquisition costs for a patent license and technology, including all related rights and patents for the technology.

The licence stated at acquisition cost is amortized using the straight-line method over the licence's useful life of 16 years.

The patents stated at acquisition cost are amortized using the straight-line method over the patents' useful life of 20 years.

The value of the licence is periodically tested for impairment based on an estimate of undiscounted cash flows for the remaining amortization period. Any impairment loss revealed by the test would be carried to earnings for the period during which the loss occurred.

The technology is amortized using the straight-line method over the useful life of 20 years. The impairment test consists of comparing the recovery fair value of the asset with its carrying value. Any excess of book value over fair value will be charged to earnings in the period in which the impairment is determined.

Amortization expenses of $54,855, related to intangible assets, were recorded in the second quarter of 2006 compared to $34,215 for the same period in 2005.

RISK FACTORS

Risks related to Operating Activities

The Company's activities entail certain risks and uncertainties inherent in the industry in which it operates. However, management has implemented a risk-reduction strategy that relies on the Company's ability to:

- Suitably protect its intellectual property;
- Establish strategic alliances;
- Compete with existing technologies marketed by major players in the industry;
- Adequately market its products;
- Develop alliances in order to constantly increase the number of ozone-compatible instruments;
- Provide the resources and the necessary energies to successfully pursue research on the compatibility of the sterilization process with current and future generations of surgical instruments.

LIQUIDITIES AND FINANCIAL RESOURCES

Management believes that it will be able to raise the necessary long-term capital to achieve corporate objectives. However, the availability of these financial resources cannot be guaranteed.

VOLATILITY OF SHARE PRICE

Company share prices are subject to volatility. Financial and scientific results that differ from analysts' projections may lead to significant variations in the price of Company shares.

PROSPECTIVE STATEMENT

This document contains certain prospective statements that reflect the Company's current expectations concerning future activities. These prospective statements include risks and uncertainties. Actual results can differ considerably from the results, as previously described in this report, expected by the Company. Investors are advised to consult the Company's quarterly and annual reports, as well as the filing of the Company's annual information form for more details on the risks and uncertainties related to these prospective statements. The reader must not unduly rely upon the Company's prospective statements. The Company is not obliged to update these prospective statements.

This Management Report has been prepared as of July 21, 2006. Additional information on the Company is available through regular filing of press releases, quarterly financial statements and the Annual Information Form on the SEDAR website (www.sedar.com).

EXAMINATION OF THE FINANCIAL STATEMENTS

The Financial Statements have not been audited by the External Controller.

Marc Boisjoli

Marc Boisjoli, M.Sc.
Vice President, Finances and Chief Financial Officer

August 9, 2006

QUARTERLY RESULTS

APRIL, MAY, JUNE

The Financial Statements have not been audited by the External Controller

FINANCIAL STATEMENTS

Balance Sheets

as of

	JUNE 30 2006 (unaudited)	DECEMBER 31 2005 (audited)	JUNE 30 2005 (unaudited)
CURRENT ASSETS			
Cash	**$ 967,510**	$ 294,101	$ 1,718,571
Temporary Investments	**9,749,578**	14,300,902	6,878,453
Account receivable	**721,500**	344,302	410,738
Inventories	**3,223,549**	3,303,258	2,795,252
Prepaid Expenses	**66,940**	95,894	57,585
	14,729,077	18,338,457	11,860,599
PROPERTY, PLANT AND EQUIPMENT	**433,971**	416,327	451,022
INTANGIBLE ASSETS	**3,771,192**	3,832,250	3,852,235
	$ 18,934,240	$ 22,587,034	$ 16,163,856
CURRENT LIABILITIES			
Accounts Payable and Accrued Liabilities	**$ 864,729**	$ 1,015,491	$ 770,027
Deferred Revenues	**372,584**	961,826	980,793
	1,237,313	1,977,317	1,750,820
SHAREHOLDERS'S EQUITY			
Share Capital	**46,457,509**	46,036,329	37,651,920
Contributed Surplus	**4,784,059**	4,620,592	2,396,155
Deficit	**(33,544,641)**	(30,047,204)	(25,635,039)
	17,696,927	20,609,717	14,413,036
	$ 18,934,240	$ 22,587,034	$ 16,163,856

Statements of Earnings
Periods ended June 30 (unaudited)

	SECOND QUARTER		SIX MONTHS	
	2006	2005	**2006**	2005
SALES	**$ 300,800**	-	**$ 602,149**	$ -
EXPENSES				
Operating	**379,607**	208,275	**878,083**	425,745
Research & development	**421,817**	449,492	**879,946**	937,353
Marketing	**779,657**	474,673	**1,495,379**	863,427
Administrative	**648,178**	579,323	**1,515,259**	1,146,335
Financial	**6,935**	1,404	**10,302**	3,272
	2,236,194	1,713,167	**4,778,969**	3,376,132
OPERATING LOSS	**1,935,394**	1,713,167	**4,176,820**	3,376,132
OTHER REVENUES	**443,320**	75,217	**679,383**	176,039
NET LOSS	**$ 1,492,074**	$ 1,637,950	**$ 3,497,437**	$ 3,200,093
NET LOSS PER SHARE	**$ 0.04**	$ 0.05	**$ 0.10**	$ 0.10
AVERAGE NUMBER OF OUTSTANDING COMMON SHARES	**36,532,147**	31,400,295	**36,491,938**	31,400,295

Statements of Contributed Surplus

Periods ended June 30 (unaudited)

	SECOND QUARTER		SIX MONTHS	
	2006	**2005**	**2006**	**2005**
Balance, Beginning of Period	**$ 4,650,379**	$ 2,304,633	**$ 4,620,592**	$ 2,213,699
Exercised Stocks	**(2,475)**	-	**(2,475)**	-
Exercised Warrants	**-**	-	**(86,006)**	-
Stock-based Compensation	**136,155**	91,522	**251,948**	182,456
Balance, End of Period	**$ 4,784,059**	$ 2,396,155	**$ 4,784,059**	$ 2,396,155

Statements of Deficit

Periods ended June 30 (unaudited)

	SECOND QUARTER		SIX MONTHS	
	2006	**2005**	**2006**	**2005**
Balance, Beginning of Period	**$ 32,052,567**	$ 23,997,089	**$ 30,047,204**	$ 22,434,946
Net Loss	**1,492,074**	1,637,950	**3,497,437**	3,200,093
Balance, End of Period	**$ 33,544,641**	$ 25,635,039	**$ 33,544,641**	$ 25,635,039

Statements of Cash Flows

Periods ended June 30 (undaudited)

	SECOND QUARTER 2006	SECOND QUARTER 2005	SIX MONTHS 2006	SIX MONTHS 2005
OPERATING ACTIVITIES				
Net loss	**$ (1,492,074)**	$ (1,637,950)	**$ (3,497,437)**	$ (3,200,093)
Adjustments for :				
Depreciation and amortization of property, plant and equipment	**36,534**	38,324	**67,562**	75,549
Depreciation and amortization of the intangible assets	**54,855**	34,215	**109,434**	68,364
Stock-based compensation	**136,155**	91,522	**251,948**	182,456
Lost on disposal of property, plant and equipment	**-**	1,698	**-**	1,698
	(1,264,530)	(1,472,191)	**(3,068,493)**	(2,872,026)
Changes in non-cash operating working capital items	**(820,649)**	187,332	**(1,008,539)**	902,288
Cash flows used in operating activities	**(2,085,179)**	(1,284,859)	**(4,077,032)**	(1,969,738)
INVESTING ACTIVITIES				
Temporary investments	**(4,566,990)**	558,695	**(4,624,698)**	(245,080)
Disposal of temporary investments	**89,016**	1,274,175	**3,173,341**	1,876,944
Acquisition of property, plant and equipment	**(66,030)**	(30,542)	**(85,206)**	(39,996)
Intangible assets	**(27,807)**	(5,329)	**(48,376)**	(12,605)
Disposal of property, plant and equipment	**-**	9,300	**-**	9,300
Cash flows (used in) from investing activities	**(4,571,811)**	1,806,299	**(1,584,939)**	1,588,563
FINANCING ACTIVITIES				
Repayment of long-term debt	**-**	(68,500)	**-**	(68,500)
Exercised shares	**(2,475)**	-	**(2,475)**	-
Exercised warrants	**-**	-	**(86,006)**	-
Share issue	**101,049**	-	**421,180**	-
Cash flows (used in) from investing activities	**98,574**	(68,500)	**332,699**	(68,500)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(6,558,416)**	452,940	**(5,329,272)**	(449,675)
CASH AND CASH EQUIVALENTS AT BEGINNING	**8,525,779**	7,899,004	**7,296,635**	8,801,619
CASH AND CASH EQUIVALENTS AT END	**$ 1,967,363**	$ 8,351,944	**$ 1,967,363**	$ 8,351,944
Temporary investments more than three months	**8,749,725**	245,080	**8,749,725**	245,080
CASH AND TEMPORARY INVESTMENTS	**$ 10,717,088**	$ 8,597,024	**$ 10,717,088**	$ 8,597,024

The notes are an integral part of the financial statements.

1. The unaudited financial statements are prepared in accordance with Canadian generally accepted accounting principles for interim financial statements and do not include all the information required for complete financial statements. The intermediate exploitation results do not necessarily reflect the exploitation results forecasted for the entire period. Moreover, they do not include all the information presented in the annual financial statements. The unaudited financial statements are consistent with the policies outlined in the Company's audited financial statements for the year ended December 31, 2005. The interim financial statements and related notes should be read in conjunction with the Company's audited financial statements for the year ended December 31, 2005.

Certain of the prior periods comparative amounts have been reclassified to conform to the current year's.

2. Accounting Policies

Intangible Assets

Intangible assets include the patent cost of a licence, the cost of a technology including all the related rights, and the patent costs. The licence and patents are amortized using the straight-line method over the licence's useful life of 16 years and over the patents' useful lives of 20 years.

The technology is amortized using the straight-line method over the estimated useful life of 20 years.

Impairment of long-lived Assets

Long-lived assets are reviewed for impairment upon the occurrence of events or changes in circumstances indicating that the carrying value of the assets may not be recoverable. Impairment is recognized when the carrying amount of a long-lived asset exceeds the undiscounted cash flows expected to result from its use and disposal. The recognized impairment is measured as the excess of the carrying amount over its fair value.

Revenue Recognition

The Company generates revenue mainly from the sale of ozone sterilization units, parts and instruments related to these units and contracts for the support and maintenance of these units. The Company is generally committed under revenue arrangements with multiple deliverables that include delivery of units, installation, maintenance, and consulting and support services. The Company recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred, the price to the buyer is fixed or determinable and collection is reasonably assured.

Notes to the Financial Statements

Revenue Recognition (cont'd)

Revenue from revenue arrangements with multiple deliverables are divided into separate units of accounting when the Company has reliable evidence. When revenue cannot be determined, it is deferred and calculated using the straight-line method over the term of the contract.

Revenue related to units sold, parts and instruments related to those units, installation and consulting services are recognized once the services are provided and the client accepts the services received. Maintenance and support contracts are calculated using the straight-line method over the term of the contract.

3. Share Capital

Issued	JUNE 30 2006	DECEMBER 31 2005
36,569,701 common shares	**$46,457,509**	$46,036,329

Stock Options

As of February 22, 2006, the Company has granted 86,001 stock options to employees and managers. These options, which vests over 3 years, entitle the holder to subscribe to common share of the Company at a price of $3.39 until February 22, 2016. The fair value of stock options is $2.33 per share.

As of May 2, 2006, the Company has granted 152,000 stock options to employees and managers. These options, which vests over 3 years, entitle the holder to subscribe to common share of the Company at a price of $3.10 until May 2, 2016. The fair value of stock options is $2.29 per share.

The Black-Scholes options pricing model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable, a practice significantly different from how stock options are granted by the Company. In addition, option pricing models require the input of highly subjective assumptions including the expected stock price volatility. Any changes in the assumptions can materially affect the fair value estimate.

Notes to the Financial Statements
Six-month period ended June 30 (Unaudited)

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

	2006
Risk free interest rate	4.38%
Expected volatility	59.5%
Life	10 years
Expected dividend yield	0%

4. Dilutive Items

	SECOND QUARTER		**SIX MONTHS**	
	NUMBER	**WEIGHTED AVERAGE EXERCISE PRICE**	**NUMBER**	**WEIGHTED AVERAGE EXERCISE PRICE**
Stock Options				
Outstanding at the beginning of period	**2,076,687**	**$2.05**	**2,002,826**	**$1.99**
Granted	**152,000**	**3.10**	**238,001**	**3.20**
Exercised	**(9,800)**	**1.79**	**(13,300)**	**1.81**
Forfeited	**(38,320)**	**2.59**	**(46,960)**	**2.60**
	2,180,567	**$2.11**	**2,180,567**	**$2.11**
Warrants				
Outstanding at the beginning of period	**3,211,576**	**$2.41**	**3,310,476**	**$2.41**
Granted	**-**	**-**	**-**	**-**
Exercised	**(43,806)**	**1.85**	**(142,706)**	**2.16**
Forfeited	**-**	**-**	**-**	**-**
	3,167,770	**$2.42**	**3,167,770**	**$2.42**
Outstanding at the end of period	**5,348,337**	**$2.30**	**5,348,337**	**$2.30**
Exercisable at the end of period	**4,659,372**	**$2.26**	**4,659,372**	**$2.26**

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