quarterly report
july august september

Q3 2007

TSO3

Message from the Chief Executive Officer

Dear Shareholders:

During the third quarter of 2007, we announced five more sales, in both the United States and Canada. Once again, these sales demonstrate the interest in the market for a product that is easy to use, economical and completely safe for users, patients and the environment, an increasingly important concern worldwide.

In this regard, the emerging environmental initiatives, such as "Hospitals for a Healthy Environment" (H2E) in the United States, of which we are a member, puts us in an advantageous position over competitors. H2E is a national movement for environmental sustainability in healthcare, and TSO_3 – thanks to the unique features of our product – is the only sterilization equipment supplier to this group of hundreds of American hospitals.

In Canada, another environmental initiative is supporting our sales efforts with hospitals: Environment Canada is requesting that healthcare facilities reduce their emissions of ethylene oxide (ETO) into the atmosphere by 99%. ETO is a toxic gas used in sterilization and for which the *125L* Ozone Sterilizer is a replacement solution.

Among the sales during the third quarter, let us mention the sale that wrapped up the referral site program, which concluded in a particularly satisfying way with this acquisition. And we also want to point out the sale of a second sterilizer to a hospital, as well as a second sale in an American city, thanks to the good references from the first customer. These sales give eloquent proof that our strategy of closely collaborating with initial users to ensure their satisfaction is a winning strategy.

After reconsidering our approach to commercialization in early 2006, we undertook the development of our own sales force. For a little more than a year and a half now, we have been recruiting and training enthusiastic and effective sales professionals. As the sales cycle for our sterilizer takes from 12 to 18 months, we are now beginning to harvest the fruits of our labour.

Our growing sales team is made up of experienced people determined to make an ever-larger impact in the market for ozone sterilization. We are therefore working unceasingly to finalize sales that were forecast in the short term, while maintaining the necessary efforts for the deployment of the *125L* Ozone Sterilizer in 2008.

Jocelyn Vézina
Chief Executive Officer

Analysis of Financial Situation and Operating Results

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) on September 3, 2003 to sell the *125L* Ozone Sterilizer and the accompanying Chemical Indicator. On August 3, 2006, the FDA authorized the utilization of the *125L* Ozone Sterilizer for sterilizing a significantly broader range of lumened instruments that are longer and with smaller interior diameters.

INTERNAL SALES FORCE

The Company has redefined its commercial sales strategy and hired its own sales force. Since the beginning of 2006, the Company has hired several sales managers, mainly in the United States. This team now benefits from the contributions of sales professionals who have extensive experience in capital equipment sales to both operating rooms and central sterilization departments in hospitals.

SUMMARY OF OPERATING RESULTS

Periods ended September 30 (unaudited)

	THIRD QUARTER		NINE MONTHS	
	2007	2006	**2007**	2006
SALES	**$ 281,525**	$ 33,961	**$1,055,401**	$ 636,110
EXPENSES				
Operating	**431,548**	308,057	**1,246,332**	1,186,140
Marketing	**1,055,463**	794,376	**3,039,599**	2,289,755
Research & Development	**438,415**	387,637	**1,267,439**	1,267,583
Administrative	**725,911**	705,234	**2,303,356**	2,220,493
Financial	**4,342**	1,968	**11,048**	12,270
	2,655,679	2,197,272	**7,867,774**	6,976,241
OPERATING LOSS	**2,374,154**	2,163,311	**6,812,373**	6,340,131
OTHER REVENUES	**331,424**	150,242	**1,066,486**	829,625
NET LOSS	**$2,042,730**	2,013,069	**$5,745,887**	$ 5,510,506
NET LOSS PER SHARE BASIC & DILUTED	**$0.04**	$0.06	**$0.13**	$0.15
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	**47,790,928**	36,532,147	**44,473,596**	36,505,341

OPERATING RESULTS

Quarter ended September 30, 2007, compared with the same quarter ended September 30, 2006.

Sales

Sales for the third quarter ended September 30, 2007, amounted to $281,525 compared to $33,961 for the same period in 2006. The Company received signed purchase agreements for five *125L* Ozone Sterilizers and related accessories during the third quarter of 2007, compared to none for the same period in 2006. According to our revenue recognition policy, the Company recognizes revenues when ownership of the unit has been transferred to the purchaser, at the time of shipment. As a result, the Company recognized two of the five purchase agreements as sales for the third quarter. The recognition of the sale of the last three sterilizers, in the beginning of the forth quarter, will represent an amount of $498,787. For the nine-month period ended September 30, 2007, sales amounted to $1,055,401 compared to $636,110 for the same period in 2006.

Operating

Operating expenses were $431,548 for the three-month period ending September 30, 2007, compared to $308,057 for the same period in 2006. Operating expenses are related to the Production Department, the cost of making the device and the After-Sales Service Department. The variance between the two periods is mainly explained by an increase in the cost of sold merchandise as well as warranty fees. For the nine-month period ended September 30, 2007, Operating Expenses amounted to $1,246,332 compared to $1,186,140 for the same period in 2006. The variance between the two periods is explained by an increase in the cost of goods sold as well as payroll costs.

Marketing

Marketing expenses amounted to $1,055,463 for the three-month period ended September 30, 2007 compared to $794,376 for the same period in 2006. The difference between the two periods is explained by an increase in salaries, sales-related expenses and commissions paid due to the expansion of the sales & marketing team. On the other hand, costs related to professional fees decreased. For the nine-month period ended September 30, 2007, marketing expenses amounted to $3,039,599 compared to $2,289,755 for the same period in 2006. The variance between the two periods is also explained by an increase in salaries due to the expansion of the sale & marketing team, sales-related expenses, and commissions paid. On the other hand, costs related to referral sites and professional fees decreased between the two periods.

Research and Development Activities

For the three-month period ended September 30, 2007, Research and Development expenses before tax credits amounted to $438,415 compared to $387,637 for the same period in 2006. The increase between the two periods is explained by the cost of purchasing materials and fees related to the “Prion Project” in the United Kingdom. For the nine-month period ended September 30, 2007, Research and Development amounted to $1,267,439 compared to $1,267,583 for the same period in 2006.

OPERATING RESULTS (cont'd)

Administration

Administration expenses amounted to $725,911 for the three-month period ended September 30, 2007 compared to $705,234 for the same period in 2006. The difference between the two periods is mainly due to an increase in professional fees. On the other hand, *Stock-based Compensation* and bonuses paid to management decreased. For the nine-month period ended September 30, 2007, administration expenses reach $2,303,356 compared to $2,220,493 for the corresponding period of the preceding fiscal year. The difference between the two periods is mainly due to an increase in salaries, professional fees and Stock-based Compensation. On the other hand there was a decrease in bonuses paid.

Other Revenues

For the three-month period ended September 30, 2007, the Company realized revenues of $331,424 compared to $150,242 for the same period in 2006. For the nine-month period ended September 30, 2007, other revenues amounted to $1,066,486 compared to $829,625 for the corresponding period of the preceding fiscal year. These increases are explained primarily by an increase in investment revenues.

Net Loss

The Company recorded a net loss of $2,042,730 or $0.04 per share for the third quarter of 2007, compared to a net loss of $2,013,069, $0.06 per share, for the same period in 2006. For the nine-month period ended September 30, 2007, net loss was $5,745,887 or $0.13 per share, compared to $5,510,506 or $0.15 per share for the same period in 2006.

SELECTED ELEMENTS

	SEPTEMBER 30		DECEMBER 31		
	2007	2006	2006	2005	2004
Cash & Temporary Investment	**$27,837,259**	$ 8,738,435	$ 7,308,782	$14,595,003	$10,678,563
Accounts Receivable	**$940,077**	$ 473,840	$ 811,119	$ 344,302	$ 332,331
Inventories	**$2,848,385**	$ 3,337,515	$ 3,387,837	$ 3,303,258	$ 2,845,586
Deferred Revenues	**$140,501**	$ 46,847	$ 75,709	$ 961,826	$ 36,060
Assets	**$35,995,447**	$16,854,296	$15,743,739	$22,587,034	$18,310,919

OPERATING RESULTS (cont'd)

Liquid Assets and Financial Situation

As of September 30, 2007, cash and temporary investments amounted to $27,837,259 and accounts receivable amounted to $940,077, for a total amount of $28,777,336 compared to $9,212,275 as of September 30, 2006. The difference between the two periods is mainly due to the realization of financing of $23 million in the first quarter of 2007. Furthermore, the Company received revenues of $4,033,250 in the third quarter as a result of the exercising of 1,613,300 warrants at a price of $2.50. These warrants expired on July 7, 2007. Furthermore, no amounts were invested in Asset Backed Commercial Paper.

Accounts Receivable

Accounts Receivable as of September 30, 2007, amounted to $940,077 compared to $473,840 for the same period in 2006. The difference between the two periods is due to an increase in the accounts receivable and tax credits receivable.

Inventories

As of September 30, 2007, short term assets showed inventory valued at $2,848,385 compared to $3,337,515 for the same period in 2006. These amounts correspond to allocations for the production of sterilizers for the commercialization process. The decrease between the two periods is due to sale of devices.

Deferred Revenues

Deferred revenues as of September 30, 2007, amounted to $140,501 compared to $46,847 for the same period in 2006. The item *Deferred revenues* reflects financial transactions relative to parts, warranties and service contracts not yet recognized as revenues.

REQUIRED CAPITAL PAYMENTS AND CONTRACTUAL COMMITMENTS

Required capital payments and the various contractual commitments in the coming fiscal years are as follows:

	2007	2008	2009
Rent	**$9,159**	$ 19,632	$ 3,590
R&D Contract	**95,755**	-	-
TOTAL	**$104,914**	$ 19,632	$ 3,590

SUMMARY OF QUARTERLY RESULTS

($000 except loss/share)	**2007**			2006				2005	
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Sales	**281**	575	199	434	34	301	301	11	161
Other Revenues	**331**	561	174	242	150	443	236	197	157
Net Loss	**2,043**	1,634	2,069	1,967	2,013	1,492	2,005	1,835	1,401
Net Loss per share (basic and diluted)	**0.04**	0.04	0.05	0.05	0.06	0.04	0.05	0.05	0.04

This figure shows the quarterly evolution of sales and other income as well as losses. The item *Net Loss per Share* has been relatively stable and constant for the past nine quarters.

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 $70,000,000 from the sale of its equity.

For the quarter ended September 30, 2007, the monthly burn-rate was approximately $615,000. The Company anticipates that its monthly burn-rate could increase due to an increase in expenses related to the commercialization of the *125L* Ozone Sterilizer and then decrease as sales accelerate.

On March 8, 2007, the Company closed a placement of $23,000,000 from the sale of 9,200,000 units. Each unit is composed of one common share and one-half warrant. Each of the 4,600,000 whole warrants entitles its holder to purchase one common share at a price of $3.00 until March 8, 2009. Furthermore, as additional consideration for services rendered, the Underwriters have been granted 460,000 warrants by the Company. Each warrant can be used to purchase one common share of the Company at a price of $2.50 until September 8, 2008.

In addition, the Company received revenues of $4,033,250 in the third quarter as a result of the exercising of 1,613,300 warrants at a price of $2.50. Issued in 2005, these warrants expired on July 7, 2007.

The Company has a line of credit with which it can obtain advances up to a maximum of $350,000. Amounts drawn on this line of credit, renewable on an annual basis, bear interest at the prime rate plus 1.0%. 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 September 30, 2007.

CAPITAL RESOURCES (cont'd)

As of September 30, 2007, the number of outstanding shares was 47,863,402.

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 certain of the Company's shareholders.

Over the three first quarters of 2007, 2006 and the last two complete fiscal years, the Company has made the following related transactions, assessed at fair market value:

	SEPTEMBER 30		DECEMBER 31	
	2007	2006	2006	2005
Rent	**$44,524**	$ 43,353	$ 57,804	$ 56,560
Other Rent-Related Expenses	**53,699**	62,026	76,431	73,462
	$98,223	$105,379	$134,235	$130,022

For the periods ended September 30 2007, and for 2006 no amount was included in accounts payable associated with a related party.

ACCOUNTING POLICY MODIFICATIONS

Impact of adopting financial instruments

On January 1, 2007, the Company adopted the new accounting standards issued by CICA regarding Financial Instruments (Section 3855) and Comprehensive Income (section 1530). Information released prior to January 1, 2007 was not restated.

ACCOUNTING POLICY MODIFICATIONS (cont'd)

Impact of adopting financial instruments (cont'd)

On January 1, 2007, the Company made the following adjustments in order to conform to the new accounting standards:

Increase (decrease)	
Balance Sheets	
Temporary investments	**$ 20,216**
Statement of Deficit	
Accounting changes	**$(20,216)**

Other comprehensive income

According to the new CICA accounting standards, the Company must present a comprehensive income statement. Since the Company has classified all of its financial instruments as financial instruments *Held for Trading*, there is no element to be disclosed distinctively in other comprehensive income. Consequently, the net earnings (net loss) also represents the results of the comprehensive income.

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.

These policies, described hereafter, we believe 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.

CRITICAL ACCOUNTING POLICIES (cont'd)

Financial instruments – Evaluation and recognition

Short term investments

Short term investments are classified as financial instruments *Held for Trading*. As such, these financial instruments are recorded at their fair values. Changes in the fair value of Held for Trading instruments are recorded as investment income and disclosed as *Other Revenues* in the income statement.

The fair value of financial instruments represents the amount at which the financial instruments could be traded knowingly and voluntarily between the parties involved. The fair value is based on market prices (buyer-seller prices) in an active market. If this is not the case, the fair value is based on market prices prevailing for instruments with similar risk profiles or characteristics or on internal or external valuation models that use observable market data.

Derivative financial instruments must be recorded at fair value unless they are specifically designated in an effective hedging relationship, and the change in fair value will be recorded directly in net earnings.

Intangible assets

Intangible assets consist of the acquisition cost of a patent license, the acquisition cost of a technology including all related rights, patent and trademark costs.

Amortization of intangible assets is calculated using the straight-line method over the useful lives of the patents, license or trademarks, according to the following:

Patents	20 years
Licence	16 years
Trademarks	10 and 15 years

Long-lived assets are tested for recoverability whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. An impairment loss is recognized when their carrying value exceeds the total undiscounted cash flows expected from their use and eventual disposition. The amount of the impairment loss is determined as the excess of the carrying value of the asset over its fair value.

Amortization expenses of $57,082, related to intangible assets, were recorded in the third quarter of 2007 compared to $54,951 for the same period in 2006.

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.

FINANCIAL INSTRUMENTS

Foreign Exchange Risk

For the three first quarters of 2007, 72% of the Company's sales are in U.S. dollars, compared to 81% in 2006, and it is therefore exposed to foreign currency fluctuations. This exchange risk is partly offset by purchases and operating expenses in U.S. dollars.

SEGMENTED INFORMATION

Operating revenues according to geographic area are as follows:

	SEPTEMBER 30	
	2007	2006
Canada	**$298,254**	$119,721
United States	**757,147**	516,389
	$1,055,401	$636,110

RISK FACTORS

Risks related to Operating Activities

The Company's activities entail certain risks and uncertainties inherent in the industry in which it operates.

Risks Associated with International Operations

TSO_3 must carry out the majority of its sales outside of Quebec and Canada, either in the United States or in Europe. The necessity to market on an international scale will put the Company in a position of direct competition with firms that possess networks and resources greater than its own. Nothing can guarantee that the marketing campaigns planned by the Company for international markets, alone or with strategic alliances, will be successful. The operations of TSO_3 at an international level could be affected negatively by factors such as the policies of Canada and the United States in regard to foreign trade, investments and taxes, foreign exchange rate controls and fluctuations, political instability and increased payment periods. One or more of these factors could have a significantly negative effect on the financial situation and results of the Company.

Compatibility, Biocompatibility and Research and Development Projects

All sterilization processes can affect medical instruments or alter their key properties over a period of time. Taking into consideration the nature of the devices to be sterilized and the oxidative effects on devices in contact with ozone, TSO_3 limits to a minimum the frequency and duration that the devices are exposed to ozone. Nevertheless, oxidization can produce several effects, depending on the material. In order to fully establish the true commercial value of its sterilization process, the Company must demonstrate the compatibility of its technology with a wide range of medical instruments. Even though the tests and studies undertaken to date by TSO_3 have shown that its ozone sterilization process is compatible with the majority of medical instruments currently used in the hospital environment, the Company must maintain ongoing studies in this respect. Besides, the Company can not guarantee the success of its different R&D projects.

Dependency on Key Personnel

TSO_3 believes that its success will continue to depend on its ability to attract and retain qualified managers and other key personnel. Losing a key employee could have a major negative impact on TSO_3.

Management of Business Growth

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

Intellectual Property and Counterfeiting Risks

The success of the Company is based on its unique technology. TSO_3 relies on a combination of patents, trade secrets, non-disclosure agreements and various contractual provisions in order to protect its technology. Nothing can guarantee that these measures will be sufficient to protect any illegal appropriation or infringement of its technology by a third party.

RISK FACTORS (cont'd)

Competition Risks

The Company's products face intense competition. Many of TSO_3's competitors have greater financial resources and marketing capabilities than it does. TSO_3's competitors and potential competitors may succeed in developing products and processes that are more effective and less expensive to use than any products or processes the Company may develop or licence, or that may render TSO_3's products or processes obsolete. The high level of competition in the sterilization industry could force the Company to reduce the price at which it sells its products or require TSO_3 to spend more time and money to market its products.

Product Liability Issues

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

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 October 31, 2007. Additional information on the Company is available through regular filing of press releases, annual reports, quarterly financial statements and the Annual Information Form on the SEDAR website (www.sedar.com).

EXAMINATION OF THE FINANCIAL STATEMENTS

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

Marc Boisjoli

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

October 31, 2007

Quarterly Financial Statements

The Quarterly Financial Statements have not been reviewed by External Auditors.

Balance Sheet

as of

	SEPTEMBER 30, 2007 (unaudited)	DECEMBER 31, 2006 (audited)
CURRENT ASSETS		
Cash	**$ 2,713,125**	$ 753,885
Temporary Investments	**25,124,134**	6,554,897
Account receivable	**940,077**	811,119
Inventories	**2,848,385**	3,387,837
Prepaid Expenses	**178,034**	133,651
	31,803,755	11,641,389
PROPERTY, PLANT AND EQUIPMENT	**522,215**	390,608
INTANGIBLE ASSETS	**3,669,477**	3,711,742
	$35,995,447	$15,743,739
CURRENT LIABILITIES		
Accounts Payable and Accrued Liabilities	**$ 818,987**	$ 1,043,700
Deferred Revenues	**140,501**	75,709
	959,488	1,119,409
SHAREHOLDERS' EQUITY		
Share Capital	**73,229,968**	47,149,127
Contributed Surplus	**7,279,852**	4,999,850
Deficit	**(45,473,861)**	(37,524,647)
	35,035,959	14,624,330
	$35,995,447	$15,743,739

Statements of Earnings

Periods ended September 30 (unaudited)

	THIRD QUARTER		NINE MONTHS	
	2007	2006	**2007**	2006
SALES	**$281,525**	$33,961	**$1,055,401**	$636,110
EXPENSES				
Operating	**431,548**	308,057	**1,246,332**	1,186,140
Marketing	**1,055,463**	794,376	**3,039,599**	2,289,755
Research & development	**438,415**	387,637	**1,267,439**	1,267,583
Administrative	**725,911**	705,234	**2,303,356**	2,220,493
Financial	**4,342**	1,968	**11,048**	12,270
	2,655,679	2,197,272	**7,867,774**	6,976,241
OPERATING LOSS	**2,374,154**	2,163,311	**6,812,373**	6,340,131
OTHER REVENUES	**331,424**	150,242	**1,066,486**	829,625
NET LOSS	**$2,042,730**	$2,013,069	**$5,745,887**	$5,510,506

Earnings per share

	THIRD QUARTER		NINE MONTHS	
	2007	2006	**2007**	2006
BASIC AND DILUTED NET LOSS	**$2,042,730**	$2,013,069	**$5,745,887**	$5,510,506
NUMBER OF SHARES				
Weighted average number of outstanding shares (1)	**47,790,928**	36,532,147	**44,473,596**	36,505,341
LOSS PER SHARE				
Basic	**$0.04**	$0.06	**$0.13**	$0.15
Diluted (1)	**$0.04**	$0.06	**$0.13**	$0.15

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

The weighted average number of outstanding shares is the same number used in the calculation of the diluted net loss per share since including potential common shares in the computation of the diluted per share amount of a loss is always anti-dilutive.

Statements of Contributed Surplus

Periods ended September 30 (unaudited)

	THIRD QUARTER		NINE MONTHS	
	2007	2006	**2007**	2006
Balance, Beginning of Period	**$8,171,801**	$4,784,059	**$4,999,850**	$4,620,592
Options exercised	**(7,680)**	-	**(34,742)**	(2,475)
Warrants exercised	**(1,058,163)**	(27,876)	**(1,292,410)**	(113,882)
Share issue expenses	**-**	-	**2,819,051**	-
Compensation options	**-**	-	**281,520**	-
Stock-based compensation	**173,894**	189,882	**506,583**	441,830
Balance, End of Period	**$7,279,852**	$4,946,065	**$7,279,852**	$4,946,065

Statements of Deficit

Periods ended September 30 (unaudited)

	THIRD QUARTER		NINE MONTHS	
	2007	2006	**2007**	2006
Balance, Beginning of Period	**$43,429,718**	$33,544,641	**$37,524,647**	$30,047,204
Accounting Changes (Note 2)	**-**	-	**(20,216)**	-
Restated Deficit	**43,429,718**	33,544,641	**37,504,431**	30,047,204
Share issue expenses	**1,413**	-	**1,942,023**	-
Compensation options	-	-	**281,520**	-
Net Loss	**2,042,730**	2,013,069	**5,745,887**	5,510,506
Balance, End of Period	**$45,473,861**	$35,557,710	**$45,473,861**	$35,557,710

Statements of Cash Flows

Periods ended September 30 (undaudited)

	THIRD QUARTER		NINE MONTHS	
	2007	2006	**2007**	2006
OPERATING ACTIVITIES				
Net loss	**$(2,042,730)**	$(2,013,069)	**$(5,745,887)**	$(5,510,506)
Adjustments for :				
Amortization of property, plant and equipment	**37,889**	36,584	**105,723**	104,146
Amortization of intangible assets	**57,082**	54,951	**169,659**	164,385
Stock-based compensation	**173,894**	189,882	**506,583**	441,830
Lost on disposal of property, plant and equipment	**-**	-	**457**	-
	(1,773,865)	(1,731,652)	**(4,963,465)**	(4,800,145)
Changes in non-cash operating working capital items	**(33,396)**	(328,073)	**206,190**	(1,336,612)
Cash flows used in operating activities	**(1,807,261)**	(2,059,725)	**(4,757,275)**	(6,136,757)
INVESTING ACTIVITIES				
Acquisition of temporary investments	**1,477,384**	3,767,125	**(9,535,583)**	(857,573)
Disposal of temporary investments	**-**	1,087,861	**7,000,000**	4,261,202
Acquisition of property, plant and equipment	**(41,773)**	(25,457)	**(237,787)**	(110,663)
Acquisition of intangible assets	**(42,364)**	(6,196)	**(127,394)**	(54,572)
Cash flows from (used in) investing activities	**1,393,247**	4,823,333	**(2 900 764)**	3,238,394
FINANCING ACTIVITIES				
Exercised options	**10,200**	6,475	**50,765**	30,483
Exercised warrants	**4,033,250**	106,250	**4,521,975**	414,941
Share issue expenses	**(1,413)**	-	**(1,942,023)**	-
Share issue	**-**	-	**23,000,000**	-
Cash flows from (used in) investing activities	**4,042,037**	112,725	**25,630,717**	445,424
INCREASE IN CASH AND CASH EQUIVALENTS	**3,628,023**	2,876,333	**17,972,678**	(2,452,939)
CASH AND CASH EQUIVALENTS AT BEGINNING	**21,673,653**	1,967,363	**7,328,998**	7,296,635
CASH AND CASH EQUIVALENTS AT END	**$25,301,676**	$4,843,696	**$25,301,676**	$4,843,696
Comprised of:				
Cash	**2,713,125**	518,366	**2,713,125**	518,366
Temporary investments less than three months	**22,588,551**	4,325,330	**22,588,551**	4,325,330
Temporary investments more than three months	**2,535,583**	3,894,739	**2,535,583**	3,894,739
CASH AND TEMPORARY INVESTMENTS	**$27,837,259**	$8,738,435	**$27,837,259**	$8,738,435

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. Interim results may not necessarily be indicative of results anticipated for the entire year. 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, 2006. 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, 2006.

Certain of the prior periods comparative amounts have been reclassified to conform to the current period.

2. Accounting policies

Accounting policies modification

Impact of adopting financial instruments

On January 1, 2007, the Company adopted the new standards issued by CICA regarding Financial Instruments (Section 3855) and Comprehensive Income (section 1530). Information preceding January 1, 2007 were not restated.

On January 1, 2007, the Company did the following adjustments to be conformed to the new standards:

Increase (decrease)	
Balance Sheets	
Temporary investments	**$20,216**
Statement of Deficit	
Accounting changes	**$(20,216)**

Other comprehensive income

According to the new CICA accounting standards, the Company must present a comprehensive income statement. Since the Company has classified all of its financial instruments as financial instruments Held for Trading, there is no element to be disclosed distinctively in other comprehensive income. Consequently, the net earnings (net loss) also represents the results of the comprehensive income.

2. Accounting policies (cont'd)

Financial Instruments – Evaluation and Recognition

Short term investments

Short term investments are classified as financial instruments *Held for Trading*. As such, these financial instruments are recorded at their fair values. Changes in the fair value of *Held for Trading* instruments are recorded as investment income and disclosed as *Other Revenues* in the income statement.

The fair value of financial instruments represents the amount at which the financial instruments could be traded knowingly and voluntarily between the parties involved. The fair value is based on market prices (buyer-seller prices) in an active market. If this is not the case, the fair value is based on market prices prevailing for instruments with similar risk profiles or characteristics or on internal or external valuation models that use observable market data.

Derivative financial instruments must be recorded at fair value unless they are specifically designated in an effective hedging relationship, and the change in fair value will be recorded directly in net earnings.

Intangible assets

Intangible assets consist of the acquisition cost of a patent license, the acquisition cost of a technology including all related rights, patent and trademark costs.

Amortization of intangible assets is calculated using the straight-line method over the useful lives, of the patents, license or trademarks, according to the following:

Patents	20 years
License	16 years
Trademarks	10 and 15 years

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

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.

2. Accounting policies (cont'd)

Foreign currency translation

Foreign currency transactions are translated into Canadian dollars as follows: monetary assets and liabilities are translated at the exchange rates in effect at the balance sheet date, and revenues and expenses are translated at the exchange rates in effect at the time of the transaction. Non-monetary assets and liabilities are translated at historical rates. The gains or losses resulting from translation are carried to earnings.

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 after-sale 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.

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	**SEPTEMBER 30 2007**	DECEMBER 31 2006
47,863,402 common shares	**$73,229,968**	$47,149,127

On March 8, 2007, the Company closed a private placement of $23,000,000 from the sale of 9,200,000 units. Each unit is composed of one common share and one-half warrant. Each of the 4,600,000 whole warrants entitles its holder to purchase one additional common share of the Company at a price of $3.00 at any time until March 8, 2009. The proceeds from this issuance of units was divided proportionally between capital assets and contributed surplus using the respective fair values of the shares and the warrants issued.

3. Share Capital (cont'd)

The Company, as additional consideration for services rendered for the issuance of these units, granted 460,000 warrants to the underwriters. Each warrant can be subscribed to one common share of the Company at a price of $2.50 each before September 8, 2008.

Stock-based compensation and other payments

Stock purchase plan for employees

On May 2, 2007, the Company implemented a stock purchase plan for employees and executives. Under this plan, employees and executives have the benefit of contributing up to 5% of their salary to the purchase of the Company stock, and the Company matches 50% of this contribution. These contributions will be turned over to a brokerage firm every month, which will purchase the Company's shares at the market price on or about the last working day of each month. Since its introduction, during the second quarter of 2007, the company incurred expenses of $1,432.87 related to this plan.

Stock options and Warrants

As of February 27, 2007, the Company has granted 183,500 stock options to certain employees and managers. These options, which vests over three years, entitle the holder to subscribe to common share of the Company at a price of $2.55 until February 27, 2017. The fair value of stock options is $1.62 per share.

As of May 2, 2007, the Company has granted 64,000 stock options to certain employees and managers. These options, which vests over three years, entitle the holder to subscribe to common share of the Company at a price of $2.20 until May 2, 2017. The fair value of stock options is $1.58 per share.

As of August 1, 2007, the Company has granted 14,000 stock options to certain employees and managers. These options, which vests over three years, entitle the holder to subscribe to common share of the Company at a price of $2.54 until August 1, 2017. The fair value of stock options is $1.80 per share.

During the first third quarters of 2007, holders exercised their stock options or their warrants, and subscribed to a total of 1,862,549 shares in consideration of $4,572,740.

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.

3. Share Capital (cont'd)

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:

	2007
Risk free interest rate	4.08%
Expected volatility	57.5%
Life	10 years
Expected dividend yield	0%

The weighted average fair value of options granted is established at $1.62.

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

	2007
Risk free interest rate	3.98%
Expected volatility	53.6%
Life	1.9 year
Expected dividend yield	0%

The weighted average fair value of warrants granted is established at $0.71.

3. Share Capital (cont'd)

Stock options and Warrants varied as follows:

	THIRD QUARTER		NINE MONTHS	
	NUMBER	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER	WEIGHTED AVERAGE EXERCISE PRICE
Stock Options				
Outstanding at the beginning of period	2,483,930	$2.19	2,292,066	$2.16
Granted	14,000	$2.54	258,023	$2.46
Exercised	(6,000)	$1.70	(27,999)	$1.81
Forfeited	-	-	(30,160)	$2.36
	2,491,930	$2.19	2,491,930	$2.19
Warrants				
Outstanding at the beginning of period	7,459,850	$2.81	2,621,100	$2.48
Granted	-	-	5,060,000	$2.95
Exercised	(1,613,300)	$2.50	(1,834,550)	$2.46
Forfeited	(786,550)	$2.50	(786,550)	$2.50
	5,060,000	$2.95	5,060,000	$2.95
Outstanding at the end of period	7,551,930	$2.70	7,551,930	$2.70
Exercisable at the end of period	6,853,364	$2.71	6,853,364	$2.71

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