quarterly report

january february march

Q1 2009

TSO3

INDEX

MESSAGE FROM THE CHIEF EXECUTIVE OFFICER

TSO_3 TAKES DECISIVE STEPS IN ITS DEVELOPMENT

Dear Shareholders,

During the first quarter of 2009 and the weeks that followed, TSO_3 took some decisive steps in its development, which are expected to result in long and short-term sources of value creation for the Company. Highlights of recent months include obtaining Health Canada's authorization to expand the field of use for the TSO_3 STERIZONE® 125L Sterilizer to include multi-channel flexible endoscopes, the submission for clearance with the Food and Drug Administration (FDA) for similar expanded claims, and the development of a new cycle for the TSO_3 STERIZONE® 125L. Today, thanks to this significant progress, the Company is backed by valuable assets to continue its business development growth.

In terms of finances, over the first quarter of 2009 the Company posted revenues of $533,488, compared to $91,147 last year. Revenues recorded during the first three months of 2009 came from the sale of three units and accessories. Over the same period last year, TSO_3 only sold accessories. Our results for the first quarter of 2009 represent a notable improvement compared to the first three months of 2008.

Business Strategy

In general, one of the main objectives of our business strategy is to gradually expand the use of our technology to the most complex and sensitive medical instruments. We intend to do this through a dynamic technology development program that is well targeted to our clients' needs and expectations.

In other words, growing our product's utility for clients will allow TSO_3 to stand out more from its competitors and provide us with access to major new commercial opportunities. This is exactly what we are on the road to achieving. On March 31, 2009 we obtained Health Canada's authorization to use the TSO_3 STERIZONE® 125L Sterilizer, for packaged, multi-channel flexible endoscopes. This significant achievement is perfectly aligned with our strategy. During the first quarter of 2009, a submission for clearance for similar expanded claims was filed with the FDA in the United States and we are awaiting the decision.

But this is not all. On April 30, 2009, we announced another promising development project aimed at adding a new cycle to our product. This new option will enable our sterilizer, the TSO_3 STERIZONE® 125L, to further increase its compatibility with more delicate materials, while preserving the same sterilization efficacy. Thanks to this enhancement, our product will provide sterilization for an increased range of more fragile and sensitive medical instruments. In this regard, we plan to file for clearance of expanded claims with Canadian and American regulatory authorities later this year. This new cycle will be integrated into the TSO_3 STERIZONE® 125L Sterilizer as soon as the

authorizations are obtained. Our existing clients will also benefit from the advantages of this new option through a simple upgrade of their current unit.

TSO_3: A Credible Alternative to Ethylene Oxide

Our technology, therefore, is increasingly meeting the complete needs of our customers, whose priorities are sterilization efficacy, materials compatibility and timely throughput.

The addition of a new cycle and the capacity to sterilize multi-channel flexible endoscopes are permitting us to position the TSO_3 STERIZONE® 125L Sterilizer as a credible alternative to the old ethylene oxide based sterilization process, the only low temperature sterilization process currently recognized as capable of adequately sterilizing the most complex and sensitive medical instruments. Ethylene oxide sterilizers, however, use flammable and highly toxic gas involving major risks for employee safety and the environment. In contrast, our technology is environmentally friendly, safe for employees to use, more economical and efficient than the ethylene oxide based processes. We have, therefore, all the tools required to gradually replace this process in hospitals.

Three-year Plan

Furthermore, to sustain the Company's medium and long-term development, we have developed a three-year strategic plan that contains precise objectives within pre-determined deadlines. This plan, which has been approved by the Company's Board of Directors, provides the framework for our technology development program and our commercial and marketing activities.

In light of the various achievements made in recent months, today we can affirm that TSO_3 is on the right track, thanks to technology that is superior in delivering sterile efficacy, a clearly established development plan, and our employee's strong commitment to the Company's vision and attainment of objectives. For these reasons, my confidence in TSO_3's future is not based on a simple act of faith, but on a strong and highly tangible foundation.

R.M. (Ric) Rumble
President and CEO

MANAGEMENT, DISCUSSION AND ANALYSIS

INTRODUCTORY COMMENTS

This analysis should be read in conjunction with the quarterly financial statements and accompanying notes as well as the annual audited financial statements, accompanying notes and MD&A of the Corporation's most recent annual report. The quarterly financial statements and the MD&A have been reviewed by the Audit and Corporate Governance Committee of TSO_3 and approved by its Board of Directors. The quarterly financial statements have not been subject to an external audit.

OVERVIEW

Founded in June 1998, TSO_3 (the “Company”) has developed a unique new sterilization process that uses ozone as the sterilizing agent. The first device resulting from this technologic platform, the TSO_3 STERIZONE® 125L Sterilizer, has been 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 TSO_3 STERIZONE® 125L Sterilizer and the accompanying Chemical Indicator on September 3, 2003.

INTERNAL SALES FORCE

The Company relies on its direct sales force to support its commercial sales strategy. This team profits from the contribution of sales professionals predominantly in the United States, who have extensive experience selling capital equipment to both operating rooms and central sterilization departments in hospitals.

SUMMARY OF OPERATING RESULTS
Three-month periods ended March 31 (Unaudited)

	FIRST QUARTER	
	2009	2008
SALES	**$533,488**	$91,147
EXPENSES		
Operating	**594,273**	370,984
Sales & Marketing	**611,553**	925,775
Research and Development	**739,056**	472,444
Administrative	**695,828**	778,278
Financial	**4,308**	5,498
	2,645,018	2,552,979
OPERATING LOSS	**2,111,530**	2,461,832
Other Revenues	**124,186**	301,500
NET LOSS	**$1,987,344**	$2,160,332
BASIC AND DILUTED NET LOSS PER SHARE	**$0.04**	$0.05
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	**47,863,402**	47,863,402

OPERATING RESULTS

Three-month period ended March 31, 2009, compared with the three month periods ended March 31, 2008.

Sales
Sales for the three-month period ended March 31, 2009 amounted to $533,488 representing the sale of three sterilizers and related accessories, compared to $91,147, representing the sale of accessories only in 2008.

Operation
For the three-month period ended March 31, 2009, Operating expenses were $594,273 compared to $370,984 for the same period in 2008. Operating expenses are related to production, manufacturing and after-sales service departments. The variance between the two periods is mainly the result of an increase in the cost of goods sold due to an increased number of devices sold.

OPERATING RESULTS (CONT'D)

Sales and Marketing

Sales and Marketing expenses amounted to $611,553 for the three-month period ended March 31, 2009 compared to $925,775 for the same period in 2008. The variance between the two periods is mainly due to a decrease in salaries and representation fees related to a reduction in the number of regional sale managers. Conversely, expenses related to marketing, primarily salaries, increased between the two periods due to the hiring of a new vice president marketing at the beginning of the period.

Research and Development

For the three-month period ended March 31, 2009, R&D expenses before tax credits amounted to $739,056 compared to $472,444 for the same period in 2008. The variance between the two periods is caused by an increase in salary costs resulting from the addition of employees to the R&D department. The variance is also explained by an increase in material purchases.

Administrative

Administrative expenses amounted to $695,828 for the three-month period ended March 31, 2009 compared to $778,278 for the same period in 2008. The variance between the two periods is mainly explained by a decrease in *Stock-based Compensation*, insurance and expenses related to the annual information documents. Conversely, expenses related to professional fees increased between the two periods.

Other Revenues

For the three-month period ended March 31, 2009, the Company realized other revenues of $124,186 compared to $301,500 for the same period in 2008. The variance between the two periods is mainly due to a decrease in investment revenues.

Net Loss

The Company recorded a net loss of $1,987,344 or $0.04 per share for the first quarter of 2009, compared to a net loss of $2,160,332, or $0.05 per share for the same period in 2008.

SELECTED ELEMENTS

	MARCH 31 (Unaudited)		DECEMBER 31 (Audited)		
	2009	2008	2008	2007	2006
Cash, Cash equiv. and Temporary Investments	**$15,914,834**	$23,633,349	$17,878,210	$26,205,174	$7,308,782
Accounts Receivable	**$984,503**	$969,421	$660,578	$975,011	$811,119
Inventories	**$2,223,811**	$3,180,295	$2,548,075	$2,996,409	$3,387,837
Assets	**$23,743,248**	$32,295,314	$25,519,647	$34,487,951	$15,743,739
Deferred Revenues	**$439,379**	$130,053	$388,958	$145,878	$75,709
Share Capital and Contributed Surplus	**$81,167,190**	$80,771,911	$81,111,234	$80,681,660	$52,148,977
Shareholders' Equity	**$21,940,521**	$31,006,058	$23,871,909	$33,041,196	$14,624,330

Liquid Assets and Financial Situation

As of March 31, 2009 cash, cash equivalents and temporary investments amounted to $15,914,834 and accounts receivable to $984,503 for a total of $16,899,337 compared to $24,602,770 as of March 31, 2008.

Inventories

Inventories as of March 31, 2009, amounted to $2,223,811 compared to an amount of $3,180,295 for the same period in 2008. This variance is explained by a decrease in the inventory of sterilizers resulting from the sale of devices between the two periods and also from the transfer of devices to the R&D Department to accelerate the work we have been doing on compatibility of medical devices.

Deferred Revenues

Deferred Revenues as of March 31, 2009, amounted to $439,379 compared to an amount of $130,053 as of March 31, 2008. The item Deferred Revenues reflects financial transactions related to parts, warranties and service contracts not yet recognized as revenues. The increase between the two periods is explained by amounts received for service contracts.

CONTRACTUAL COMMITMENTS

As of March 31, 2009, the various contractual commitments in the coming fiscal years are as follows:

	2009	2010	2011	2012	2013
Operating leases and service contracts	**$ 95,753**	$ 73,868	$ 25,515	$15,538	$1,220

SUMMARY OF QUARTERLY RESULTS (Unaudited)

	2009	2008				2007			
($000 except loss/ share)	**Q1**	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Sales	**533**	382	725	1,037	91	676	281	575	199
Other Revenues	**124**	247	204	203	301	399	331	561	174
Net Loss	**1 987**	2 898	1,848	2,728	2,160	2,166	2,043	1,634	2,069
Net Loss per share (basic and diluted)	**0.04**	0.06	0.04	0.05	0.05	0.04	0.04	0.04	0.05

This figure shows the quarterly evolution of sales and other income as well as losses. Non-recurring expenses associated with reorganizations that took place during the year 2008 accounted for $0.02 per share, one cent in each of Q2 and Q4. Excluding these exceptional charges, the net loss per share has remained somewhat stable over the past nine quarters.

CAPITAL RESOURCES

The Company principally uses its capital to finance operating expenses, commercialisation fees, marketing expenses, R&D expenses, administrative expenses, working capital and capital expenditures. Historically, the Company has funded its activities through several rounds of public and private financing, as well as from various government subsidies. Since its inception in June 1998, the Company has raised more than $70,000,000 from the sale of its equity.

CAPITAL RESOURCES (Cont'd)

For the three-month period ended March 31, 2009, the monthly burn-rate was approximately $605,000. In recent months, the Company has implemented measures to decrease its cash burn rate and the first quarter of 2009 allowed the Company to evaluate the effects of these measures. The Company believes that its current liquid assets are sufficient to finance its activities through 2010.

The Company has a line of credit with which it can obtain advances up to a maximum of $350,000. As of March 31, 2009, this line of credit was undrawn.

The Company invests its liquidities in money market funds or in fixed-income securities offered by governmental, paragovernmental and municipal entities as well as from companies that have high credit ratings. These securities are chosen according to their quality, according to the schedule of foreseen expenses and according to interest rates. Also, the Company does not hold investments in Asset Backed Commercial Paper that are not guaranteed by financial institutions or by the Government.

As of March 31, 2009, the number of outstanding shares was 47,863,402.

OFF-BALANCE SHEET TRANSACTION

The Company made no off-balance sheet transaction during the first quarter of 2009.

TRANSACTIONS WITH RELATED PARTIES

The Company leases its premises from a corporation owned by some of the Company's shareholders.

TRANSACTIONS WITH RELATED PARTIES (Cont'd)

Over the first quarters of 2009 and 2008 and the last two complete fiscal years, the Company has made the following transactions with this related company:

	MARCH 31		DECEMBER 31	
	2009	2008	2008	2007
Rent	**$15,698**	$14,841	$61,561	$59,365
Other Rent-related Expenses	**36,102**	34,161	71,138	67,069
	$51,800	$49,002	$132,699	$126,434

These operations took place in the normal course of business and were measured at the exchange value, which is the amount of the consideration established and accepted between the corporation and this related party. As of March 31, 2009, an amount of $14,946 was included in accounts payable for transactions made with this related company compared to zero in 2008.

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.

Estimation and Principal Accounting Policies

There has been no significant change to estimation and accounting policies since December 31, 2008, except to comply with the new accounting standards described hereafter. For a detailed description of the new accounting standards, refer to the corresponding section of our 2008 Annual report available on the SEDAR website www.sedar.com.

ACCOUNTING CHANGES

Impact of adopting the new accounting standards

In February 2008, the CICA issued a new Section 3064, “Goodwill and Intangible Assets” which will replace Section 3062 “Goodwill and Other Intangible Assets” as well as Section 3450 “Research and Development Costs.” The new Section 3064 states that upon initial identification, intangible assets are to be recognized as assets only if they meet the definition of an intangible asset and the asset recognition criteria. Section 3064 also provides further information on the recognition of internally generated intangible assets (including research and development costs). As for subsequent measurement of intangible assets, goodwill and disclosure, Section 3064 essentially carries forward unchanged the recommendations of former Section 3062. This section will apply to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2009. The adoption of this new section doesn’t have a significant impact on the Company’s financial statements.

Future accounting changes

In February 2008, the Canadian Accounting Standards Board confirmed that publicly-accountable enterprises would be required to use International Financial Reporting Standards (IFRS) in the preparation of financial statements for fiscal years beginning on or after January 1, 2011. In the Company’s case, the use of IFRS will be required for the interim and annual financial statements dated after January 1, 2011 with comparative statements restated under IFRS. During the financial period, ended on December 31, 2008, the Company developed an IFRS changeover plan. This plan is comprised of three separate phases:

Phase I

Completed during the last financial period, consisted of a diagnostic designed to identify the main conversion issues for the Company and their potential impact.

Phase II

Should be completed by December 31, 2009. The purpose of this phase is to analyze, calculate the impact of and select the different accounting policies to adopt for the IFRS changeover. During this phase, the Company will put in place internal processes and policies to collect and compile the required information for the IFRS changeover.

Phase III

Should be completed by March 31, 2011. The purpose of this phase is to prepare the opening balance sheets, financial statements (current and comparative period), conciliation notes and the supplementary notes required for the IFRS and its initial adoption.

Further to the work done, management created a summary list of the potential consequences to the Company of the IFRS changeover:

- **Accounting policies**: According to the Company's management, the IFRS will have little impact on the accounting policies of the Company because these policies are currently consistent with the IFRS. According to the Company's management, the biggest impact of the IFRS changeover on the Company should be at the level of supplementary information as disclosed in the notes of the Financial Statements and at the level of accounting terminology used. The IFRS could have a moderate impact on the recognition and presentation of financial instruments and shareholder's equity in the Company.

- **Information technology (IT)**: Company management believes that the IFRS changeover will have a limited impact on internal controls and procedures because they are currently able to produce complete and reliable financial and non financial information for management in accordance with the IFRS.

- **Control mechanisms and internal procedures:** Company management estimates that the adoption of the IFRS will have a limited impact on mechanisms of control and internal procedures because the majority of these procedures and mechanisms currently allow the management to obtain exhaustive and reliable information to present financial and non-financial information in accordance with the IFRS.

- **Financial information expertise**: Company management ensures that employees receive necessary training related to IFRS, either from an external firm or professional organization.

- **Commercial activities**: Company management believes that IFRS should not have material impact on the Company's commercial activities.

The future management reports will provide updates on the IFRS plan and on recommend changes, if any.

LIQUIDITY AND FINANCIAL RESOURCES

Management believes that it will be able to raise the necessary long-term capital to achieve the Company's 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.

PERSPECTIVES

The Company competes in an industry characterized by both multinational and regional companies that market low temperature sterilization technologies. The most commonly utilized technologies today use Ethylene Oxide Gas, Hydrogen Peroxide Vapour, Liquid Peroxides and Ozone as their primary sterilizing agent. Low temperature sterilization is performed in three distinct areas within acute care hospitals. These areas include the Central Sterilization Department, Operating Room Sterile Processing areas, and Gastrointestinal (GI) Departments. The Company's primary target market for its first product, the TSO_3 STERIZONE® Sterilization System, are the Central Sterilization Departments found in acute care hospitals. This targeted customer group, by nature, is conservative so sales cycles can be long as a result of administrative and budgeting procedures. These customers require a low temperature sterilization process that is efficacious, materials compatible, provides timely throughput, is cost effective in use, safe for users and environmentally responsible. Prior to the introduction of the TSO_3 STERIZONE® Sterilization System, no single competitor or technology had been able to meet all these stated customer requirements. As a result, end-users had to employ multiple products and technologies to meet their sterilization needs. To address this issue, the Company entered the market with a proprietary sterilization process that provided unmatched efficacy, economy and safety.

On March 10, 2009, the Company filed to the US FDA and to Health Canada for enhanced claims which, when cleared, will increase the indications for use of the sterilizer offering customers increased product utility further lowering their operating costs. On March 31, 2009, the Company received the homologation of Health Canada. The Company believes that its patented technology can be used to create a number of additional cycles, each having the superior efficacy of the existing product while tuning the cycle to optimize compatibility with today's increasingly delicate diagnostic and surgical instruments. The Company expects that many of these cycles will be configured as part of the current product as well as completely new cycles that address different requirements for different locations in the hospital. As such the Company is

PERSPECTIVES (Cont'd)

focusing on delivering increased value to the central sterile department while developing new equipment focused on the needs of the Operating Room. In the long term the Company believes that its technology will prove itself as a viable, efficacious, compatible and cost effective replacement for a significant portion of current sterilization cycles using steam to process surgical instruments.

The Company is currently focused on commercializing its first product within North America and relies on its own sales force, comprised of sales professionals who have extensive experience selling capital equipment to hospitals. The requirements for market entry and prioritization of international markets are ongoing and plans to enter these markets are under development.

SEGMENTED INFORMATION

Operating revenues according to geographic area, for the three-month periods ended March 31, are as follows:

	FIRST QUARTER			
	2009		2008	
Canada	**$158,192**	**30%**	$65,936	72%
USA	**$375,296**	**70%**	$25,211	28%
	$533,488	**100%**	$91,147	100%

RISK FACTORS

Risks related to operating activities

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

Risks associated with international operations

TSO_3 must carry out the majority of its sales outside of Quebec and Canada, primarily in the United States. The necessity of marketing on an international scale puts the Company in a position of direct competition with firms that possess networks and resources greater than its own. Nothing guarantees that the marketing campaigns implemented 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 negatively affected by factors such as Canadian and United States foreign trade policies, 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. Conversely, the Company can not guarantee the success of its different research and development 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. The Management expects to review the Succession Plan in 2009 of all senior level management.

Management of Business Growth
Achieving its short-term objectives could launch the Company into a phase of significant and rapid growth and force it to considerably increase its personnel, the number of partners, 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 guarantees that these measures will be sufficient to protect any illegal appropriation or infringement of its technology by a third party.

Competition Risks
The Company's products face intense competition. Many of our competitors have financial resources and marketing capabilities greater than our own. 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.

Cash Equivalents and Temporary Investments

The Company is exposed to various risks, including the risks related to holding financial instruments. To manage the risk related to the use of financial instruments contained in the various investments that make up cash equivalents and temporary investments, controls have been implemented, in particular the cash and risk management policy. These measures aim primarily to minimize default risk while optimizing returns from cash flow while reducing the Company's main risk exposures, which are described below:

Market Risk

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

Interest Rate Risk

Interest rate risk exists when interest rate fluctuations modify the cash flows of the Company's investments.

As of March 31, 2009, if interest rates at that date had been 50 basis points lower and all other variables constant, the net loss, for the three-month period, would have been $8,819 lower, arising mainly from an increase in the fair value of fixed rate financial assets classified as held for trading. If interest rates had been 50 basis points higher and all other variables constant, the net loss, for the three-month period, would have been $8,763 higher, arising mainly from a decrease in the fair value of fixed rate financial assets classified as held for trading. Net loss has sensitivity similar to the interest rate decrease than to the increase because of investments with capped interest rates.

Credit Risk

The use of financial instruments can create a credit risk in which there is a risk of financial loss resulting from a counterparty's inability or refusal to fully meet its contractual obligations. The Company's credit risk management policies include the authorization to perform investment transactions with recognized financial institutions, either in bonds, money market funds or guaranteed investment certificates. Therefore, the Company manages credit risk by complying with the established investment policies.

Concentration Risk

Concentration risk exists when investments are made with multiple entities that share similar characteristics or when a large investment is made with a single entity. This risk was considered low by the Company as of March 31, 2009.

Liquidity Risk

Liquidity risk represents the possibility of the Company not being able to raise the funds needed to meet financial commitments at the appropriate time and under reasonable conditions. The Company manages this risk by maintaining permanent and sufficient liquidity to meet current and future financial obligations, under both normal and exceptional circumstances. The funding strategies used to manage this risk include turning to capital markets to carry out issues of equity and debt securities. The Company can not guarantee that it will be able to put in place such financing.

Currency risk

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

At March 31, 2009, if the Canadian dollar had weakened 10 percent against the US dollar with all other variables held constant, the net loss, for the three-month period, would have been $48,800 lower. Conversely, if the Canadian dollar had strengthened 10 percent against the US dollar with all other variables held constant, the net loss, for the three-month period, would have been $48,800 higher.

DISCLOSURE CONTROLS AND PROCEDURES

The Chief Executive Officer and the Chief Financial Officer of the Company are responsible for establishing and maintaining the Company's Disclosure Controls and Procedures and the Company's internal control over financial reporting. As required by Securities Legislation, the Chief Executive Officer and the Chief Financial Officer have evaluated, or caused to be evaluated under their supervision, the controls and procedures regarding information disclosure and have concluded that these controls and procedures are effective.

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 April 29, 2009. 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.

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

April 29, 2009

TSO_3 Inc.

QUARTERLY FINANCIAL STATEMENTS
March 31, 2009

Q1

Notice from Management

The Quarterly financial statements have not been subject to an external audit.

STATEMENT OF EARNINGS AND COMPREHENSIVE LOSS (Unaudited)
Periods ended March 31

	FIRST QUARTER	
	2009	2008
SALES	**$533,488**	$ 91,147
EXPENSES		
Operating	**594,273**	370,984
Sales and Marketing	**611,553**	925,775
Research and Development	**739,056**	472,444
Administrative	**695,828**	778,278
Financial	**4,308**	5,498
	2,645,018	2,552,979
OPERATING LOSS	**2,111,530**	2,461,832
Other Revenues	**124,186**	301,500
NET LOSS AND COMPREHENSIVE LOSS	**$1,987,344**	$2,160,332
Basic and diluted net loss per share (Note 8)	**$0.04**	$0.05

The accompanying notes are an integral part of quarterly financial statements.

STATEMENTS OF CONTRIBUTED SURPLUS (Unaudited)
Periods ended March 31

	FIRST QUARTER	
	2009	2008
Balance, beginning of period	**$7,900,943**	$7,471,369
Stock-based Compensation	**55,956**	90,251
Balance, end of period	**$7,956,899**	$7,561,620

STATEMENTS OF DEFICIT (Unaudited)
Periods ended March 31

	FIRST QUARTER	
	2009	2008
Balance, beginning of period	**$57,239,325**	$47,640,464
Change in accounting policies	**-**	(34,943)
Restated deficit	**$57,239,325**	$47,605,521
Net loss	**$1,987,344**	$2,160,332
Balance, end of period	**$59,226,669**	$49,765,853

The accompanying notes are an integral part of quarterly financial statements.

BALANCE SHEET as of

	March 31, 2009 (Unaudited)	December 31 2008 (Audited)
CURRENT ASSETS		
Cash and cash equivalents (note 4)	**$10,003,939**	$9,186,202
Temporary investments (note 4)	**5,910,895**	8,692,008
Accounts receivable	**984,503**	660,578
Inventories	**2,223,811**	2,548,075
Prepaid expenses	**124,848**	114,848
	19,247,996	21,201,711
PROPERTY, PLANT AND EQUIPMENT	**905,604**	675,810
INTANGIBLE ASSETS	**3,589,647**	3,642,126
	$23,743,247	$25,519,647
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	**$1,363,347**	$1,258,780
Deferred revenues	**439,379**	388,958
	1,802,726	1,647,738
SHAREHOLDERS' EQUITY		
Share capital (note 6)	**73,210,291**	73,210,291
Contributed surplus	**7,956,899**	7,900,943
Deficit	**(59,226,669)**	(57,239,325)
	21,940,521	23,871,909
	$23,743,247	$25,519,647

The accompanying notes are an integral part of quarterly financial statements.

STATEMENTS OF CASH FLOWS (Unaudited)
Periods ended March 31

	FIRST QUARTER	
	2009	2008
OPERATING ACTIVITIES		
Net loss	**($1,987,344)**	($2,160,332)
Adjustment for :		
Amortization of property, plant and equipment	**46,962**	40,105
Amortization of intangible assets	**77,390**	58,606
Change in the value of temporary investments	**149,226**	(58,263)
Stock-based compensation	**55,956**	90,251
Loss (gain) on disposal of property, plant & equipment	**4,374**	(8,353)
	($1,653,436)	($2,037,986)
Changes in non-cash operating working items	**145,327**	(400,612)
Non-cash item		
Transfer to R&D	**(115,609)**	-
Impact of the new standards	**-**	34,943
Cash flows used in operation activities	**(1,623,718)**	(2,403,655)
INVESTING ACTIVITIES		
Disposal of temporary investments	**2,631,887**	3,012,547
Acquisition of property, plant and equipment	**(165,522)**	(228,377)
Acquisition of intangible assets	**(24,910)**	(6,049)
Disposal of property, plant and equipment	**-**	8,353
Cash flows used in investing activities	**2,441,455**	2,786,114
FINANCING ACTIVITIES		
Cash flows used in financing activities	**-**	**-**
INCREASE IN CASH AND CASH EQUIVALENTS	**817,737**	382,459
CASH AND CASH EQUIVALENTS AT BEGINNING	**9,186,202**	22,081,727
CASH AND CASH EQUIVALENTS AT THE END	**$10,003,939**	$22,464,186
Comprised of :		
Cash	**$5,063,875**	$782,271
Cash equivalents	**$4,940,064**	$21,681,915
CASH, CASH EQUIVALENTS	**$10,003,939**	$22,464,186

The accompanying notes are in integral part of quarterly financial statements

1. Description of Business

The Company was incorporated on June 10, 1998 under Part 1A of the Companies Act (Québec). Its activities consist of developing and marketing a sterilization process for heat-sensitive medical instruments using ozone as a sterilizing agent.

2. Critical Accounting Policies

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. Quarterly 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, 2008 except to comply with the new accounting standards described hereafter.

The quarterly financial statements and accompanying notes should be read in conjunction with the Company's audited financial statements for the year ended December 31, 2008.

3. Change in accounting policies

Impact of adopting the new accounting standards

Inventories: Section 3031 replaces Section 3030, "Inventories." It indicates that inventories are valued at the lower of cost and realizable value. It provides guidance on determining cost and requires previous write-downs to be reversed when the value of inventories increases.

On January 1, 2008, the Company adjusted the following balance sheet items in order to comply with the new accounting standard:

	MARCH 31	
	2009	2008
Increase (decrease)		
Balance sheet		
Inventories	**$ -**	$34,943
Statement of deficit		
Accounting changes	**$ -**	($34,943)

Since this standard came into effect, the Company has been recording its raw materials inventory at the lower of cost and net realizable value. In the past, the Company recorded raw materials inventory at the lower of cost and replacement value.

Goodwill and Intangible Assets: In February 2008, the CICA issued a new Section 3064, "Goodwill and Intangible Assets" which will replace Section 3062 "Goodwill and Other Intangible Assets" as well as Section 3450 "Research and Development Costs." The new Section 3064 states that upon initial identification, intangible assets are to be recognized as assets only if they meet the definition of an intangible asset and the asset recognition criteria. Section 3064 also provides further information on the recognition of internally generated intangible assets (including research and development costs). As for subsequent measurement of intangible assets, goodwill and disclosure, Section 3064 essentially carries forward unchanged the recommendations of former Section 3062. This section will apply to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2009. The adoption of this new section doesn't have a significant impact on the Company's financial statements.

Future accounting changes

In February 2008, the Canadian Accounting Standards Board confirmed that publicly-accountable enterprises would be required to use International Financial Reporting Standards (IFRS) in the preparation of financial statements for fiscal years beginning on or after January 1, 2011. In the Company's case, the use of IFRS will be required for the interim and annual financial statements dated after January 1, 2011 with comparative statements restated under IFRS allowing the Company to evaluate the impact on its financial statements.

4. Financial Instruments

The following table gives detail on the financial instruments included in current assets:

	MARCH 31	
	2009	2008
Commercial paper and bonds, maturing at various dates through January 2009 and having an average yield of 3.5%	**$8,552,297**	$4,181,710
Money market funds	**2,298,662**	$18,669,368
	$10,850,959	$22,851,078
Distributed as follows :		
Cash equivalents	**$4,940,064**	$21,681,915
Temporary investments	**5,910,895**	1,169,163
	$10,850,959	$22,851,078

Cash equivalents are presented on the balance sheet under line item "Cash and cash equivalents". The item comprises of $5,063,875 in cash and $4,940,064 in cash equivalents, for a total of $10,003,939 ($22,464,186 as of March 31, 2008).

The Company is exposed to various types of risks, including those related to the use of financial instruments. To manage these risks included in the various types of investments that make up cash equivalents and temporary investments, controls were put in place, particularly those related to cash and risk management policy. These measures aim primarily to minimize default risk while optimizing returns from cash flow performance while reducing the main risks to which the Company is exposed, as described below:

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

Interest Rate Risk

Interest rate risk exists when interest rate fluctuations modify the cash flows of the Company's investments.

As of March 31, 2009, if interest rates at that date had been 50 basis points lower and all other variables constant, the net loss, for the three-month period, would have been $8,819 lower, arising mainly from an increase in the fair value of fixed rate financial assets classified as held for trading. If interest rates had been 50 basis points higher and all other variables constant, the net loss, for the three-month period, would have been $8,763 higher, arising mainly from a decrease in the fair value of fixed rate financial assets classified as held for trading. Net loss has sensitivity similar to the interest rate decrease than to the increase because of investments with capped interest rates.

Credit Risk

The use of financial instruments can create a credit risk that is the risk of financial loss resulting from a counterparty's inability or refusal to fully discharge its contractual obligations. The Company's credit risk management policies include the authorization to carry out investment transactions with recognized financial institutions, with credit ratings of at least A and higher, in either bonds, money market funds or guaranteed investment certificates according to Standard and Poor's. Consequently, the Company manages credit risk by complying with established investment policies. The Company establishes investment policies that are reviewed, regularly updated and approved. These policies define the credit risk limits based on the characteristics of the counterparties. The investments of the Company were all quoted by a recognized agency and met the Company's investment policy criteria.

Concentration Risk

Concentration risk exists when investments are made with multiple entities that share similar characteristics or when a large investment is made with a single entity. As of March 31, 2009, the Company considers that this risk is low.

Liquidity Risk

Liquidity risk represents the possibility of the Company not being able to raise the funds needed to meet financial commitments at the appropriate time and under reasonable conditions. The Company manages this risk by maintaining permanent and sufficient liquidity to meet current and future financial obligations, under both normal and exceptional circumstances. The funding strategies used to manage this risk include turning to capital markets to carry out issues of equity and debt securities.

Foreign currency exchange rate risk

Foreign currency exchange risk exists when financial assets are denominated in foreign currency.

At March 31, 2009, if the Canadian dollar had weakened 10 percent against the US dollar with all other variables held constant, the net loss, for the three-month period, would have been $48,800 lower. Conversely, if the Canadian dollar had strengthened 10 percent against the US dollar with all other variables held constant, the net loss, for the three-month period, would have been $48,800 higher.

5. Credit facilities

The Company has a line of credit with which it can obtain advances up to a maximum of $350,000. As of March 31, 2009, this line of credit was undrawn.

6. Share Capital

	MARCH 31			
	2009		2008	
Issued and paid	**Number**	**$**	Number	$
Balance at beginning	**47,863,402**	**$73,210,291**	47,863,402	$73,210,291
Balance at end	**47,863,402**	**$73,210,291**	47,863,402	$73,210,291

Stock options and Warrants

As of March 4, 2009, the Company has granted 28,000 stock options to the independent directors of the Company. These options, which vest over three years, entitle the holder to subscribe to as many common shares of the Company at a price of $0.37 until March 4, 2019. The fair value of stock options is $0.28 per share.

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:

	2009
Risk free interest rate	**2.79 %**
Expected volatility	**67 %**
Life	**10 Years**
Expected dividend yield	**0 %**

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.

During the period ending March 31, 2009, Stock options and Warrants varied as follows:

	FIRST QUARTER	
Stock options	**Number**	**Weighted Average Exercice Price**
Outstanding at the beginning of three month period	**4,225,786**	**$1.33**
Granted	**28,000**	**$0.37**
Exercised	**-**	**-**
Cancelled	**(183,362)**	**$2.12**
Outstanding at the end of period	**4,070,424**	**$1.27**
Exercisable at the end of the period	**2,016,975**	**$1.95**

Warrants	FIRST QUARTER	
	Number	**Weighted Average Exercice Price**
Outstanding at the beginning of three month period	**4,600,000**	**$3.00**
Granted	**-**	**-**
Exercised	**-**	**-**
Expired	**4,600,000**	**$3.00**
Oustanding at the end of period	**-**	**-**
Exercisable at the end of the period	**-**	**-**

7. Capital Management

The Company uses its capital to finance research and development activities, operating, administrative and marketing expenses, working capital and capital assets. Historically, the Company has financed activities through rounds of public and private financing as well as government grants. According to its capacities and prevailing market conditions, the Company could finance, in whole or in part, its long-term assets through long-term debt.

For the three-month period ended March 31, 2009, the monthly burn-rate was approximately $605,000. In recent months, the Company has recently implemented measures to decrease its cash burn rate and the first quarter of 2009 allowed the Company to evaluate the effects of these measures. The Company believes that its current liquid assets are sufficient to finance its activities through 2010.

Each quarter, the Company reviews the loss-per-share ratio with the objective of improving this ratio. Over the years, this ratio has been maintained at a steady level.

8. Earnings per Share

The following table reconciles the basic and the diluted earnings per share for the three-month periods ended March 31:

	FIRST QUARTER	
	2009	2008
Net loss		
Basic and Diluted	**$1 987 344**	$2 160 332
Number of Shares		
Weighted average number of outstanding shares (1)	**47 863 402**	47 863 402
Loss per Share		
Basic	**$0,04**	$0,05
Diluted (1)	**$0,04**	$0,05

(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.

9. Comparative Figures

Certain comparative figures have been reclassified to conform to the current period.

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