Q1 2012

January - February - March

Quarterly Report

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MESSAGE FROM THE PRESIDENT AND CEO

Dear Valued Shareholders,

The first quarter of fiscal 2012 has been a busy one. Busy is something we expect to be all year long. This year our focus is clearer than ever. Our primary focus remains obtaining US regulatory clearance. Obtaining US clearance not only opens the largest market of the globe for our product, it also facilitates product take-up in other markets where US clearance is such a positive influence. In the meantime, the Company is supporting our channel partner's efforts in launching into additional international markets. This activity consumes time and resources however progress is being made, and units continue to ship, albeit at a slower rate than desired. Lastly, we are expanding our portfolio, adding a second sterilizer targeted at the OR Sub-Sterile area within hospitals.

The Company's activities pertaining to our pursuit of US regulatory clearance have been well documented this year and I am pleased to say that, as of April 20th, we have all documentation once again registered with the Agency. Four products are involved with the filing; the sterilizer itself, the Biological Indicator, the Chemical Indicator and the Test Pack. We will watch and react quickly as we learn more about how the submissions are moving through the process.

Over recent months, we have been supporting our channel partner through education and hands-on training in international markets. We have also been audited by various international agencies. These audits are required ahead of commercial activity in certain countries. This activity is the precursor to sales and must be completed prior to first shipment in those countries.

During the first quarter we made good progress working on the product that we have designed for the OR sub-sterile market. Testing is now underway and its cycle is undergoing optimization prior to completing the intense studies required to meet and file to global regulatory requirements. During our recent Annual General Meeting of Shareholders, we were pleased to provide a "sneak peek" of the new sterilizer. We were very pleased with the reception it received. We will target initial commercial activities on this new product before year-end.

After the end of the quarter, the Company announced that it had entered into and subsequently closed a Bought Deal on a Private Placement basis. We are satisfied with the $8.9M proceeds from this round of financing, which enable us to both pursue US regulatory clearance on the 3M™ Optreoz™ 125-Z Sterilizer and maintain our efforts aimed at initial commercial activities on the new OR product.

As always, we will keep you informed of our progress and of any developments that may be of interest and we appreciate your continued support.

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

OVERVIEW

Who we are and what we do

TSO_3 was founded in June 1998 in Québec City and currently employs 62 people. The Company's activities encompass research, development, commercialization and licensing of sterilization processes and accessories for heat-sensitive medical devices.

Initially, TSO_3 developed a unique sterilization process based solely on ozone as the sterilizing agent. It offered major savings over competing low-temperature sterilization methods, greater safety for both users and patients and was considered a "green" technology. However, this first generation product provided limited instrument compatibility and a relatively long sterilization cycle.

The first generation sterilizer received regulatory clearances from both Health Canada and the United States Food and Drug Administration. It also received additional clearances expanding the field of application to a wider range of complex surgical instruments, attesting to the high sterilization efficacy of the TSO_3 sterilization platform.

Despite its significant advantages, this first generation product did not succeed in addressing the overall market needs and therefore had limited commercial success, achieving only 38 sales in North America by TSO_3's own sales force over a period of five years.

A renewed Company

In 2008, TSO_3 welcomed new management team members with extensive experience in the sterilization industry. The team led the development of a new generation sterilizer that would benefit from the already proven superior sterile efficacy of the Company's technology, while offering increased compatibility and speed, matching the market's expectations for high-throughput of expensive and high-demand complex medical devices.

The new STERIZONE® 125L+ Sterilizer developed in 2009 uses a combination of hydrogen peroxide and ozone as well as a DYNAMIC Sterilant Delivery System™. This increases cycle speed, as well as compatibility with a wide range of instruments - including some of the most complex and delicate instruments used in Minimally Invasive Surgeries (MIS).

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

The STERIZONE® 125L+ Sterilizer is covered under a global license agreement for worldwide commercialization to healthcare settings by 3M™ Infection Prevention Division under the brand 3M™ Optreoz™ 125-Z Sterilizer.

Our business environment and the market drivers

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

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

Today, it is not uncommon to find sterile reprocessing of instruments conducted in three areas of the hospital. These are: the Central Sterile Department (CS), the sub-sterile area of the Operating Room (OR) and the Gastroenterology Department (GI).

Why low temperature sterile reprocessing

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

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

Our competitive landscape

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

The low-temperature gas sterilization methods most commonly used today are Ethylene Oxide (EtO) and Hydrogen Peroxide (H_2O_2) sterilization systems. These methods both offer "terminal sterilization" referring to the instruments being packaged and therefore, remaining sterile until opened at the surgical site. However, EtO is a toxic gas which requires aeration time for desorption of the chemistry; this keeps expensive stock of medical devices captive for periods of 16 to 30 hours. H_2O_2, on the other hand, is fast but very expensive, and has limits based on efficacy and loading capacity.

Another method playing an important role in a sub-segment of low temperature sterilization is Liquid Chemical Sterilization. This type of procedure is located directly in the OR as a just-in-time method to complement the CS Department's sterile production. The GI department is also a heavy user of Liquid Chemical Sterilization. Liquid systems are not terminal and require rinsing with extensively treated water that cannot be assured to be sterile. As such, instruments cannot be assured to be sterile when used on a patient.

These products each offer benefits to the customers, but none is a complete solution matching the customer need for high and cost effective throughput of complex and expensive medical devices. Therefore, customers have to purchase and support a combination of products to meet their daily requirements for sterile supplies.

FIRST QUARTER 2012 AND RECENT ACTIVITIES

Shipments of 3M™ Optreoz™ 125-Z Sterilizers to worldwide locations

In First Quarter 2012 (Q1) the Company continued to ship 3M™ Optreoz™ 125-Z Sterilizers for installation at worldwide customer locations through 3M, as well as directly to initial TSO_3 Canadian customers, as part of the program to upgrade from the 125L Ozone Sterilizer, to the 3M™ Optreoz™ 125-Z Sterilizer.

Regulatory status

TSO_3 currently holds commercial clearance in Canada and Europe for its sterilizer sold under the brand 3M™ Optreoz™ 125-Z, as well as its accessories and consumables.

Late in June 2011, TSO_3 submitted a new request for market clearance of the 3M™ Optreoz™ 125-Z Sterilizer and more recently, on April 20, 2012, TSO_3 filed subsequent data requested by the Agency to support its filing. TSO_3 is still actively pursuing US regulatory clearance and remains confident in receiving such clearance.

Expanding the portfolio of products

In order to add to its revenue stream, TSO_3 has initiated the development of more products. The terminal sterilization solution developed by TSO_3 can be favorably applied to multiple segments of the low-temperature sterilization market.

Late in 2011, TSO_3 finalized the electromechanical design of a second product based on the Company's core technology and intended to use in the OR sub-sterile area. To this end, TSO_3 and 3M had announced mid-2011, an amendment to the initial agreement, providing 3M commercial rights to this product currently under development. In Q1 2012, TSO_3 finalized the prototype and presented it at its Annual General Meeting of Shareholders held on April 25, 2012. Next steps are cycle optimization and completion of the studies required to meet global regulatory requirements, with initial commercial activity for this new product still targeted by year-end 2012.

Changing structure and skills to enable growth

In 2010 and 2011, the Company had gradually shifted spending from Customer Support and Communications functions to Research and Development functions, supporting its changing approach where the Company develops superior and innovative sterile reprocessing solutions for medical devices, and offers these solutions through licensing agreements to capable channel partners for global commercial reach. In Q1 2012, the Company continued to welcome additional new talents, to further reinforce production and quality activities in support of the 3M™ Optreoz™ 125-Z Sterilizer, as well as R&D activities.

Our 2012 focus includes the following priorities:

- Obtain United States regulatory clearance for 3M to access this market with the 3M™ Optreoz™ 125-Z Sterilizer;
- Support 3M™ in launching the 3M™ Optreoz™ 125-Z Sterilizer in international cleared markets;
- File for regulatory clearance for the second product targeted at the OR sub-sterile market and initiate commercial activities for that product;
- Continue reinforcing organizational structure through alignment and addition of talent and skills;
- Explore additional opportunities to increase revenue streams.

MANAGEMENT DISCUSSION AND ANALYSIS

The Management Discussion and Analysis (MD&A) is intended to help the readers to assess, from the viewpoint of management, the financial position and results of operations of TSO_3 Inc. ("TSO_3" or the "Company") for the three-month period ended March 31, 2012 and to compare them with the three-month period ended March 31, 2011. This information is dated May 8, 2012 and should be read in conjunction with the condensed unaudited interim Financial Statements Annual and the accompanying notes. Unless specified otherwise, all amounts are stated in Canadian dollars.

The financial information contained in this MD&A and in the condensed unaudited interim financial statements has been prepared in accordance with the International Financial Reporting Standards ("IFRS"), and is in compliance with International Accounting Standard 34 - Interim Financial Reporting ("IAS 34").

The condensed unaudited interim financial statements, accompanying notes and MD&A have been reviewed by the Audit and Risk Management Committee of TSO_3 and approved by the Board of Directors.

This MD&A contains forward-looking information. Additional information about the forward-looking information as well as the associated risks and uncertainties can be found on pages 15 to 19 of the report.

SUMMARY OF RESULTS

Periods ended March 31
(Unaudited, IFRS Basis)

	FIRST QUARTER	
	2012	2011
	$	$
Revenues		
Sales	**727,722**	136,628
License Revenue	**52,569**	52,569
Total Revenues	**780,291**	189,197
Expenses		
Operating	**839,597**	244,764
Customer Support and Communications	**191,365**	239,043
Research and Development	**1,021,465**	849,706
Administrative	**762,726**	795,802
Financial Revenues	**(33,020)**	(65,886)
Financial Expenses	**7,006**	5,778
Total Expenses	**2,789,139**	2,069,207
Net Loss before Income Taxes	**2,008,848**	1,880,010
Income Taxes	**-**	**-**
Net Loss and Comprehensive Loss	**2,008,848**	1,880,010
Basic and Diluted Net Loss per Share	**0.03**	0.03
Weighted Average Number of Shares Outstanding	**58,785,682**	58,024,508

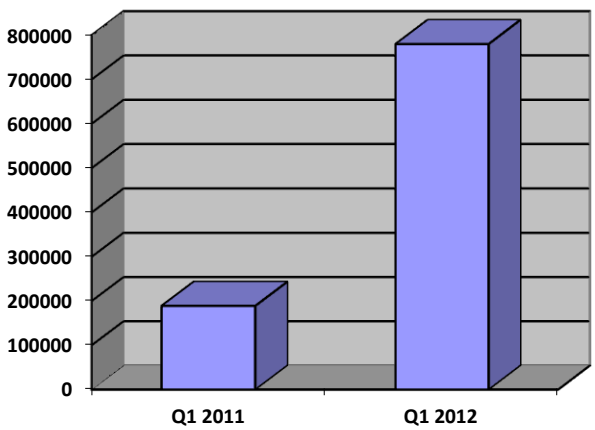
RESULTS ANALYSIS

In the following paragraphs, the Company analyzes the variations between the first quarter of 2012 and the first quarter of 2011.

REVENUES

Sales and License Revenues

In Q1, revenue from sale of sterilizers, consumable supplies, accessories, service contracts, training, after-sales service and license amounted to $780,291, as compared to $189,197 in 2011. The revenue in Q1-2012 was driven by sales of sterilizers while in Q1-2011, the majority of revenue was from service contracts.



NET LOSS

In the first quarter of 2012, the Company experienced a loss of $2,008,848. This is marginally higher than the $1,880,010 loss incurred in the same period in fiscal 2011. The contribution margin from larger sales in 2012 was not sufficient to offset the increase in expenses driven by higher research and development expenditures. On a per share basis, the loss was $0.03 in Q1-2012, or the same as in Q1-2011.

EXPENSES

Operating

In Q1-2012, operating expenses amounted to $839,597, as compared to $244,764 in Q1-2011. Operating expenses include all of the expenses incurred in connection with the Supply Chain Department. Given that production was almost non-existent in Q1-2011, most of the increase is due to additional staffing and expenses directly related to a higher level of actual and prospective sales of sterilizers in 2012. As explained below, some expenses formerly reported as part of operating expenses are now reclassified as part of Customer Support and Communications.

Customer Support and Communications

Beginning in 2012, TSO_3 has regrouped all activities related to corporate communications, customer service and technical assistance, including support to 3M's sales and marketing activities. Expenses incurred on these activities amounted to $191,365 for the first quarter of 2012. In Q1-2011, the corresponding amount was $239,043 and was made up of (1) $80,304 formerly reported as part of operating expenses and (2) expenses primarily incurred in connection with marketing activities conducted by TSO_3 prior to the commercial launch of the Optreoz™ 125-Z Sterilizer by 3M. On a year-to-year comparable basis, the customer support and corporate communications expenses were therefore lower in Q1-2012 than in Q1-2011 primarily due to the fact that marketing and sale activities for the Optreoz ™ 125-Z Sterilizer are under the responsibility of 3M.

Research and Development

For the quarter ended March 31, 2012, research and development expenditures amounted to $1,021,465, as compared to $849,706 in 2011. The higher research and development expenses are due to activities related to the 510(k) applications with the US regulatory agency, development cost's associated with the OR product as well as efficacy and compatibility tests for various surgical instruments.

Administrative

In Q1 2012, the administrative expenses amounted to $762,726, as compared to $795,802 in 2011. The difference primarily stems from timing difference in certain expenses without any significance for the overall level of expenses.

Financial revenue

In Q1 2012, financial revenue stood at $33,020, as compared with $65,886 for the corresponding period in 2011. The difference is primarily due to a lower level of interest-bearing cash and cash equivalents and temporary investments in 2012.

FINANCIAL POSITION ANALYSIS

(Unaudited, IFRS Basis)

	March 31 2012 $	December 31 2011 $
Cash and Cash Equivalents	**8,317,673**	8,782,207
Temporary Investments	**1,538,229**	2,602,166
Accounts Receivable	**1,289,650**	1,893,470
Inventories	**884,916**	1,120,482
Property, Plant and Equipment	**1,335,086**	1,218,381
Intangible Assets	**3,165,835**	3,226,735
Accounts Payable and accrued liabilities	**941,719**	1,231,201
Warranty Provision	**87,067**	88,972
Deferred Revenues (Current and Non-Current)	**1,827,179**	1,906,520
Equity	**13,750,798**	15,693,763

Liquid Assets

As of March 31, 2012, cash, cash equivalents and temporary investments amounted to $9,855,902, as compared to $11,384,373 as at December 31, 2011. This decrease reflects the absorption of cash by the operations partly offset by a $549,640 decrease in non-cash working capital. As detailed below, such decrease is primarily due to a decrease in accounts receivable and inventories from December 31, 2011 to March 31, 2012.

Accounts Receivable

From their level of $1,893,470 on December 31, 2011, the accounts receivable decreased to $1,289,650 on March 31, 2012. The December 2011 amount includes a $589,200 provision for R&D tax credits, which was an increase of $284,200 over the corresponding provision of $305,000 in December 2010. As a result of collections, the tax credits receivable decreased by $464 299 in Q1-2012 to a balance of $124 901 as at March 31, 2012. In addition, several of the shipments made by the Company pursuant to the upgrade program were made in December 2011, thereby inflating receivables at year-end and creating in Q1-2012 a contraction of receivables as these non-recurrent sales are being collected.

Inventories

As at March 31, 2012, inventories amounted to $884,916, as compared with $1,120,482 on December 31, 2011.

	March 31 2012 $	December 31 2011 $
Raw Materials	**724,658**	730,465
Work in Progress	**1,208**	198,657
Finished Goods	**159,050**	191,360
	884,916	1,120,482

Raw material inventory is virtually the same on March 31, 2012 as it was on December 31, 2011. The combined level of work-in-progress and finished goods inventories was reduced from $390,017 on December 31, 2011 to $160,258 on March 31, 2012 because the upgrade program no longer increases the size of the production plan. It may be noted that the combined rather than the individual sizes of work-in-progress and finished goods inventories should be considered because the transfer of inventory from work-in-progress to finished goods often depends only on the timing of their release by the Quality Department.

Fixed Assets

During the first quarter of 2012, the Company added $220,220 to its fixed assets, including $134,169 added to sterilizers used within its R&D activities and $64,922 in medical devices used as part of its tests for efficacy and compatibility. For the same period in 2011, additions to fixed assets were $23,379 which was added to the stock of equipment and tools.

Accounts Payable and Accrued Liabilities

Accounts Payable and Accrued Liabilities decreased from $1,231,201 as at December 31, 2011 to $941,719 as at March 31, 2012. This reduction is equally due by (1) a reduction in payroll accruals and (2) a decrease in payables partly due to quicker payments to suppliers in order to obtain reduced prices for raw material components.

Warranty Provision

The warranty provision decreased from $88,972 on December 31, 2011 to $87,067 on March 31, 2012.

Deferred Revenues

Current and non-current deferred revenues, as of March 31, 2012 amounted to $1,827,179 compared to $1,906,520 as of December 31, 2011. Out of those deferred revenues, an amount of $1,638,402 ($1,690,971 as of December 31, 2011) represented deferred revenues that were created when the agreement was signed with the 3M Company and which are amortized over the original term of that agreement. The other component of deferred revenues consists in service contracts related to the earlier

generation 125L Ozone Sterilizers but not yet recognized as revenue in accordance with IFRS.

Shareholders' Equity

During the first quarter of 2012, shareholders' equity decreased by $1,942,965, from a balance of $15,693,763 on December 31, 2011 to $13,750,798 on March 31, 2012. This decrease was primarily the result of the absorption of the $2,008,848 loss from operations.

CASH FLOWS ANALYSIS

(Unaudited, IFRS Basis)

	FIRST QUARTER	
	2012	2011
	$	$
Operating Activities	**(1,435,030)**	(2,274,090)
Investing Activities	**970,496**	2,927,302
Financing Activities	**-**	4,860

Operating Activities

Cash absorbed by operating activities amounted to $1,435,030 for the first quarter of 2012 as compared to $2,274,090 for the corresponding period of 2011. The decrease in cash absorbed by operations was primarily due to a decrease in operating working capital items, namely accounts receivable and inventories.

Investing Activities

For the three-month period ended March 31, 2012, cash flows generated by investing activities amounted to $970,496 as compared to $2,927,302 for the same period in 2011. The variance is explained by the monetization of investments during 2011.

Financing Activities

For the three-month period ended March 31, 2012, cash flows from financing activities amounted to $0, as compared to $4,860 for the same period in 2011.

SUMMARY OF QUARTERLY RESULTS

(Unaudited, IFRS Basis)

This table shows comparative quarterly figures for total revenue, net loss and net loss per share.

($000 except loss/share)	2012				2011			2010
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	**Q2**
Total Revenue	**780**	1,309	1,153	703	189	231	176	**546**
Net Loss	**2,008**	1,398	2,261	2,116	1,880	1,723	2,055	**1,929**
Net Loss per Share (basic and diluted)	**0.03**	0.02	0.04	0.04	0.03	0.03	0.04	**0.03**

SEGMENTED INFORMATION

The Company is structured as a single operating segment.

Almost all fixed assets of the Company are located in Canada.

Operating revenues are allocated between geographic areas based on the location of the invoiced client and are as follows for periods ended March 31:

	FIRST QUARTER			
	2012		2011	
	$	**%**	$	%
Canada	**681,057**	**94**	61,322	45
Worldwide	**46,665**	**6**	75,306	55
	727,722	**100**	136,628	100

The Company earns an important part of its revenues from a long-term commercial agreement with the 3M Company. For the first quarter of 2012, these revenues represented 44% of the Company's sales (7% for the same period in 2011). Shipments to that client were made in Canada and elsewhere in the world outside the United States.

For the quarter ended March 31, 2012, an amount of $52,569 in license revenues ($52,569 for the same period in 2011) also resulted from that commercial agreement.

CONTRACTUAL COMMITMENTS

As of March 31, 2012, the contractual commitments calling for expenditures during future fiscal years are as follows:

	2012	**2013**	**2014**	**2015**
	$	**$**	**$**	**$**
Operating leases and service contracts	31,025	12,734	6,822	1,839

OFF-BALANCE SHEET ARRANGEMENT

The Company made no off-balance sheet arrangement during the first quarter of 2012.

ADDITIONNAL DISCLOSURE

The Company has accumulated a substantial amount of losses, unclaimed expenses and tax credits which could be claimed in the future to reduce income taxes on profits. The deferred income tax assets related will be recorded in the financial statements, resulting in an increase in earnings and shareholders' equity, once the Company concludes that these losses likely will be realized. At the same time, a deferred income tax liability related to the cost of the intangible assets for tax purposes will also be recorded. If the Company had concluded on March 31, 2012 that these items would likely be materialized, based on an effective rate of 15% for federal taxes and 11.9% for provincial taxes, it would have recorded an aggregate net amount of $21,200,000 in tax assets.

CAPITAL RESOURCES

The Company primarily uses its capital to finance operating expenses, commercialization expenses, marketing expenses, R&D expenses, administrative expenses, working capital and capital expenditures.

In the past, the Company has funded its activities through several rounds of public and private financing, as well as from various government grants. Depending on the quality of the credit structure of a prospective debt transaction and prevailing market conditions, the Company could finance a portion of its cash needs through debt issues.

For the three-month period ended March 31, 2012; the average monthly burn-rate was $509,490, as compared with $764,827 for the same period in 2011 and an average of $746,180 for the entire year 2011. The lower burn rate for Q1-2012 was due to the $549,640 decrease in non-cash working capital. Adjusting the burn rate to eliminate the positive impact of that non-recurring reduction increases it to $692,704, which is more in line with the 2011 experience. At that burn rate, the liquidities would be sufficient to finance the Company's activities until the beginning of 2013.

Subsequently to quarter end, the Company proceeded with an equity issue having gross proceeds of $8.97 million. Based on the 2011 average burn rate, this added enough to the liquidities to finance the Company's operations until the beginning of 2014.

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

As at March 31, 2012, the number of outstanding shares was 58,785,682.

ACCOUNTING POLICIES

See note 2 and 3 of our condensed interim financial statements for the quarter ended March 31, 2012 for a detailed presentation of accounting policies, critical accounting judgments, key source of estimation uncertainty and futures accounting changes.

RISK FACTORS

Investors should understand that the Company operates in a high risk industry. The Company has identified the following risks and uncertainties that may have a material adverse effect on its business, financial condition or results. Investors should carefully consider the risks described below before purchasing securities of the Company. The risks described below are not the only ones the Company faces. Additional risks not currently known to the Company or believed to be immaterial may also significantly impair its business operations.

Risk associated with Commercial Operations

TSO_3 has a commercial agreement with the Infection Prevention Division of the 3M Company for the marketing, sales and service of its new generation sterilizer. While the agreement outlines roles, responsibilities and expectations of both TSO_3 and 3M, 3M retains all responsibility concerning marketing and customer relations, including the timing of product launch and the efforts allocated to the opening of new markets. The schedules, difficulties to meet the requirements of regulatory authorities, changes in foreign trade policies, fluctuations of foreign exchanges rates, political instability could, amongst others, negatively affect the commercial activities and the agreement between TSO_3 and 3M.

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 and hydrogen peroxide, TSO_3 seeks to reduce to a minimum the frequency and duration that the devices are exposed to ozone and hydrogen peroxide. 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 STERIZONE® sterilization process is compatible with the majority of medical instruments currently used in the hospital environment, the Company must maintain ongoing studies in this respect. Conversely, the Company cannot guarantee the success of its 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 Board of Directors and Management have reviewed in 2011 the Company's succession plan for all senior level management.

Management of Business Growth

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

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

Product Liability Issues

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

Regulatory Approvals

Sterilizers are subject to regulatory clearances within individual markets. As such, they are evaluated for compliance with established consensus standards. When a new technology is involved, there is no such standard. In such a case, a manufacturer must identify an existing "predicate" device from which to compare the new technology. The Company has effectively demonstrated such "predicate" devices in the past concerning the first generation sterilizer. While the Company believes that it is taking all appropriate steps to support existing and future submissions for regulatory clearance, it can not guarantee when, or if, such clearances will be received.

Financial Instruments

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 Investment Policy. As described below, the measures aim primarily to reduce investment relative risks so as to preserve capital instead of seeking to improve returns.

Market risk

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

Interest rate risk

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

On March 31, 2012, if interest rates on that date had been 0.5% lower, and all other variables held constant, the net loss and comprehensive loss for the quarter would have been $1,703 lower, arising mainly as a result of an increase in the fair value of fixed rate financial assets classified as held for trading. If the interest rates on that date had been 0.5% higher, all other variables being held constant, the net loss and comprehensive loss for the quarter would have been $1,694 higher, arising mainly as a result of a decrease in the fair value of fixed rate financial assets classified as held for trading. The net loss and comprehensive loss therefore have a similar sensitivity to interest rate increases and interest rate decreases.

Credit risk

The use of financial instruments can create a credit risk in which there is a risk of financial loss resulting from a counterparty's inability or refusal to fully meet its contractual obligations. The Company's maximum exposure to credit risk is equal to the amounts recognized as accounts receivables, cash equivalent and temporary investments.

The Company has established an Investment Policy that addresses credit risk management and includes the authorization to perform investment transactions with the Canadian federal or provincial governments, crown corporations, municipalities or financial institutions, either in money market funds, guaranteed investment certificates or bonds with credit ratings of a minimum of A- or better according to the rating scale of Standard and Poor's or the equivalent for other credit rating agency. This Policy defines credit risk limits based on the characteristics of the counterparties. Therefore, the Company manages credit risk by complying with its established Investment Policy.

As at March 31, 2012, the Company's investments were rated by two recognized agencies, and they were in conformity with the Company's Investment Policy.

Concentration risk

Concentration risk exists when investments are made with multiple entities that share similar characteristics or when a large investment is made with a single entity. As at March 31, 2012, in accordance with the Company's Investment Policy, there was no single investment, other than bank deposits or investments benefiting from a government guarantee, which exceeded 30% of the liquid assets.

Liquidity risk

Liquidity risk represents the possibility that the Company would be unable to monetize its financial instruments so as to meet financial commitments at the appropriate time and under reasonable conditions.

The Company's maximum exposure to liquidity risk is equal to the amounts recognized as accounts payable and accrued liabilities and these amounts will be paid in the following year. The Company manages this risk by maintaining permanent and sufficient liquidity to meet current and future financial obligations, under both normal and exceptional circumstances. The funding strategies used to manage this risk include turning to capital markets to carry out issues of equity and debt securities.

Currency risk

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

As at March 31, 2012, if the Canadian dollar had depreciated 10 percent against the US dollar with all other variables held constant, the net loss and comprehensive loss would have been $4,122 lower. Conversely, if the Canadian dollar had appreciated 10 percent against the US dollar with all other variables held constant, the net loss and comprehensive loss would have been $4,122 higher.

Fair value

The fair value of a financial instrument is equal to the amount at which this instrument could be traded knowingly and willingly between the parties involved. Fair value is based on the published prices (buy/ask prices) in an active market. In absence of such prices, fair value is based on the prevailing market prices for instruments with similar risk profiles and characteristics or on internal or external valuation models that use observable market data.

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

DISCLOSURE CONTROLS AND PROCEDURES

In accordance with National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings, an evaluation of the effectiveness of the Company's disclosure controls and procedures ("DC&P") and its internal control over financial reporting ("ICFR") was conducted. Based on this evaluation, the President and Chief Executive Officer and the Chief Financial Officer have concluded that DC&P and ICFR were effective as of the year ended December 31, 2011, and that, as a result, ICFR design provides reasonable assurance that material information relating to the Company is made known to them by others within the Company, particularly during the period in which the annual filings are being prepared, and the information that the Company must present in its annual documents, its interim documents or in other documents it files or submits under securities regulations is recorded, processed, condensed and presented within the time frames prescribed by this legislation. Furthermore, ICFR design provides reasonable assurance that the Company's financial information is reliable and that its financial statements have been prepared, for the purpose of publishing financial information, in accordance with IFRS. Lastly, no changes to the ICFR that have had or are likely to have a significant effect on this control mechanism were identified by management during the accounting period commencing on January 1, 2012 and ending on March 31, 2012.

FORWARD LOOKING STATEMENTS

The quarterly report and the MD&A contained herein, include certain statements that are considered "forward-looking information" within the meaning of applicable securities legislation. Furthermore, the words "will", "may", "could", "should", "outlook", "believe", "plan", "envisage", "anticipate", "expect" and "estimate", or the negatives of these terms or variations of them and the use of the conditional tense as well as similar expressions denote forward-looking information.

Forward-looking information is based upon a number of assumptions and is subject to a number of risks and uncertainties, many of which are beyond the Company's control that could cause actual results to differ materially from those that are disclosed in or implied by such forward-looking information. These risks and uncertainties are described under the section "Risk factors" above.

Although the forward-looking information contained in this MD&A is based upon what the Company believes are reasonable assumptions, investors are cautioned against placing undue reliance on this information since actual results may vary from the forward-looking information. Consequently, all of the forward-looking information contained in this MD&A are qualified by the foregoing cautionary statements, and there can be no guarantee that the results or developments anticipated by the Company will be realized or, even if substantially realized, that they will have the expected consequences or effects on the Company, its business, financial condition or results of operation.

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 Management, Discussion and Analysis has been prepared as at May 8, 2012. Additional information on the Company is available through regular filing of press releases, annual reports, quarterly financial statements and the Annual Information Form on the SEDAR website www.sedar.com.

Benoît Deschamps
Vice President of Finance
and Chief Financial Officer

May 8, 2012

CONDENSED UNAUDITED INTERIM FINANCIAL STATEMENTS

For the three-month periods ended March 31, 2012 and 2011

Notice from Management

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

STATEMENTS OF LOSS AND COMPRENSIVE LOSS (Unaudited)
Periods ended March 31
(In Canadian $)

	Notes	FIRST QUARTER 2012 $	2011 $
Revenues			
Sales	19	**727,722**	136,628
License Revenue		**52,569**	52,569
Total Revenues		**780,291**	189,197
Expenses	5		
Operating		**839,597**	244,764
Customer Support and Communications		**191,365**	239,043
Research and Development		**1,021,465**	849,706
Administrative		**762,726**	795,802
Financial Revenues	4	**(33,020)**	(65,886)
Financial Expenses	4	**7,006**	5,778
Total Expenses		**2,789,139**	2,069,207
Net Loss before Income Taxes		**2,008,848**	1,880,010
Income Taxes	17	**-**	-
Net Loss and Comprehensive Loss		**2,008,848**	1,880,010
Basic and Diluted Net Loss per Share	20	**0.03**	0.03

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

STATEMENTS OF CHANGES IN EQUITY (Unaudited)
(In Canadian $)

	Notes	Share capital $	Reserve – Stock option plan $	Reserve – Warrants $	Deficit $	Total $
Balance at January 1, 2011		88,067,517	3,326,330	5,490,429	(74,974,657)	21,909,619
Options exercised	13	8,496	(3,636)	-	-	4,860
Stock-based Compensation	14	-	25,209	-	-	25,209
Net Loss for the quarter		-	-	-	(1,880,010)	(1,880,010)
Balance at March 31, 2011		88,076,013	3,347,903	5,490,429	(76,854,667)	20,059,678
Balance at April 1, 2011		88,076,013	3,347,903	5,490,429	(76,854,667)	20,059,678
Options exercised	13	24,269	(10,601)	-	-	13,668
Warrants exercised	13	1,820,250	-	(620,250)	-	1,200,000
Transfer to Deficit	15	-	-	(4,870,179)	4,870,179	-
Stock-based Compensation	14	-	195,828	-	-	195,828
Net Loss for the period		-	-	-	(5,775,411)	(5,775,411)
Balance at December 31, 2011		89,920,532	3,533,130	-	(77,759,899)	15,693,763
Balance at January 1, 2012		89,920,532	3,533,130	-	(77,759,899)	15,693,763
Stock-based Compensation	14	-	65,883	-	-	65,883
Net Loss for the quarter		-	-	-	(2,008,848)	(2,008,848)
Balance at March 31, 2012		89,920,532	3,599,013	-	(79,768,747)	13,750,798

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

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

	Notes	As at March 31 2012 $	As at December 31 2011 $
Current Assets			
Cash and Cash Equivalents	6	**8,317,673**	8,782,207
Temporary Investments	6	**1,538,229**	2,602,166
Accounts Receivable	7	**1,289,650**	1,893,470
Inventories	8	**884,916**	1,120,482
Prepaid Expenses		**75,374**	77,015
		12,105,842	14,475,340
Non-current Assets			
Property, Plant and Equipment	9	**1,335,086**	1,218,381
Intangible Assets	10	**3,165,835**	3,226,735
		4,500,921	4,445,116
		16,606,763	18,920,456
Current Liabilities			
Accounts Payable and Accrued Liabilities		**941,719**	1,231,201
Warranty Provision	11	**87,067**	88,972
Deferred Revenues	12	**315,934**	425,824
		1,344,720	1,745,997
Non-current Liabilities			
Deferred Revenues	12	**1,511,245**	1,480,696
		2,855,965	3,226,693
Equity			
Share Capital	13	**89,920,532**	89,920,532
Reserve – Stock Option Plan	14	**3,599,013**	3,533,130
Reserve – Warrants	15	**-**	-
Deficit		**(79,768,747)**	(77,759,899)
		13,750,798	15,693,763
		16,606,763	18,920,456

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

STATEMENTS OF CASH FLOWS (Unaudited)
Period ended March 31
(In Canadian $)

	Notes	FIRST QUARTER 2012 $	2011 $
Cash Flows from Operating Activities			
Net Loss and Comprehensive Loss before Income Taxes		**(2,008,848)**	(1,880,010)
Adjustments for:			
Depreciation of Property, Plant and Equipment	9	**103,515**	77,052
Amortization of Intangible Assets	10	**74,353**	77,768
Change in the value of Temporary Investments	4	**(6,063)**	(52,307)
Stock-based Compensation		**65,883**	25,209
		(1,771,160)	(1,752,288)
Changes in non-cash operating working capital items		**336,130**	(521,802)
Cash Flows used in Operating Activities		**(1,435,030)**	(2,274,090)
Cash Flows from Investing Activities			
Disposal of Temporary Investments		**1,070,000**	3,000,000
Acquisition of Property, Plant and Equipment	8, 9	**(86,051)**	(25,379)
Acquisition of Intangible Assets	10	**(13,453)**	(47,319)
Cash Flows generated by Investing Activities		**970,496**	2,927,302
Cash Flows from Financing Activities			
Options exercised	13	**-**	4,860
Cash Flows generated by Financing Activities		**-**	4,860
Increase (decrease) in Cash and Cash Equivalents		**(464,534)**	658,072
Cash and Cash Equivalents at the beginning		**8,782,207**	6,115,297
Cash and Cash Equivalents at the End		**8,317,673**	6,773,369

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

NOTES TO THE FINANCIAL STATEMENTS (Unaudited)
Periods ended March 31

1. Description of Business

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

2. Accounting Policies

Statement of Compliance

These condensed unaudited interim financial statements are in compliance with International Accounting Standard 34 – Interim Financial Reporting ("IAS 34"). Accordingly, certain information and footnote disclosure normally included in annual financial statements prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standard Board (IASB) and applicable as at March 31, 2012, have been omitted or condensed.

Basis of preparation

The financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair value, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

The principal accounting policies are set out below:

Presentation Currency and Foreign Currency Translation

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

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

Revenue Recognition

Sales

The Company generates revenue from the sale of sterilization units as well as parts, consumable supplies and accessories related to these units. For such sales, the Company recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred, the price to the buyer is fixed or determinable and collection is reasonably assured.

NOTES TO THE FINANCIAL STATEMENTS (Unaudited)
Periods ended March 31

2. Accounting Policies (cont'd)

Revenue Recognition (cont'd)

In addition, the Company earns revenue from service contracts that is recognized using the straight-line method over the term of each contract.

Financial Revenue

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

License Revenues

The license revenues and deferred revenues result from a commercial agreement with 3M™. This agreement includes license revenues that were paid upon signing, and additional payments based on achieving certain objectives. These deferred revenues are recognized on a straight line basis over the term of the agreement.

Stock-based Compensation

The Company uses the fair value method to measure compensation expense at the date of grant of stock options to employees. Fair value is determined using the Black-Scholes option pricing model and is amortized to net income over the vesting period with an offset to the Reserve Stock option plan. The amortization of the fair value is based on a graded vesting approach over the vesting period, and takes into consideration the number of options which are expected to vest. The forfeiture rate is revised every year and changes are recorded to net income. When options are exercised, the corresponding Reserve Stock option plan and the proceeds received by the Company are credited to share capital. The Stock option plan is an equity settled plan.

Income Taxes

The Company follows the liability method of accounting for income taxes. Under this method, deferred income taxes are recognized based on the expected future tax consequences of differences between the carrying amount of financial position items and their corresponding tax basis, using the enacted and substantively enacted income tax rates for the years in which the differences are expected to reverse. Deferred income tax assets are recognized in net income only if their realization is considered more likely than not.

NOTES TO THE FINANCIAL STATEMENTS (Unaudited)
Periods ended March 31

2. Accounting Policies (cont'd)

Government Assistance and Research and Development Tax Credits

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

Inventories

The cost of inventories is essentially determined using the first-in, first-out method. The cost of work in progress and finished goods comprises the cost of raw materials and an applicable share of the cost of labour and manufacturing overhead based on normal production rates. Inventories are valued at the lower of cost and net realizable value.

When impairment is recognized, a new assessment of net realizable value is performed in each subsequent period. When the circumstances that justified writing down the inventories below cost no longer exist, or when there is a clear indication of an increase in net realizable value due to a change in the economic situation, the amount of the write-down is reversed and the new carrying amount is the lower of the cost or the revised net realizable value.

Property, Plant and Equipment

Property, plant and equipment are recorded initially and subsequently at cost less depreciation and impairment. Depreciation is calculated using the straight-line method over their estimated useful life taking into account any residual value, as follows:

Office furniture and lift truck	10 years
Equipment and tools	7 years
Sterilizers used internally	5 years
Stand	5 years
Hospital equipment	3 years
Computer equipment	3 years
Leasehold improvements	2 years

The residual value, depreciation method and the useful life of an asset are reviewed at each financial year-end.

NOTES TO THE FINANCIAL STATEMENTS (Unaudited)
Periods ended March 31

2. Accounting policies (cont'd)

Intangible Assets

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

Acquired in a business combination	
Technology	20 years
Acquired externally	
Patents	20 years
License	16 years
Software	3 years
Trademarks	10 and 15 years
Web site	3 years

The residual value, amortization method and the useful life of an asset are reviewed at each financial year-end.

Impairment of Property, Plant and Equipment and Intangible Assets

At the end of each reporting period, assets are reviewed for indication of any impairment. In such case, the asset's recoverable value is calculated to establish the amount of the impairment loss, if any. If it is not possible to determine the recoverable value for an individual asset, then the recoverable value of the asset is determined on the basis of its cash generating unit to which the asset belongs.

The recoverable value is the higher of (1) an asset's fair value less the cost to sell and (2) its value in use. Value in use is the present value of estimated future cash flows discounted using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which estimated future cash flows were not adjusted.

If the asset's (or a cash generating unit's) estimated recoverable value is lower than its carrying value, the asset's (or the cash generating unit's) carrying value is brought down to its recoverable value. An impairment loss is immediately recognized in the Statement of Loss and Comprehensive Loss.

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

NOTES TO THE FINANCIAL STATEMENTS (Unaudited)
Periods ended March 31

2. Accounting policies (cont'd)

Warranty Provision

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

Warrants

The Company uses the fair value method to measure the value of warrants at the grant date. Fair value is determined using the Black-Scholes option pricing model and is recorded in the deficit with an offset to Reserve Warrants. When warrants are exercised, the corresponding Reserve Warrants and the proceeds received by the Company are credited to share capital.

Financial Instruments

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

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

Classification of Financial Instruments

Category	Classification
Cash	Loans and Receivables
Cash Equivalents	Held-for-trading
Temporary Investments	Held-for-trading
Accounts Receivable	Loans and Receivables
Accounts Payable and Accrued Liabilities	Other Liabilities

Cash and Cash Equivalents

Cash and cash equivalents include cash, bonds with maturities of three months or less from the date of acquisition and money market funds. These investments are highly liquid and are held for the purpose of meeting short-term cash commitments. Cash equivalents are recorded at fair value. Increases and decreases in fair value are recognized through net income and presented under "Change in the Value of Investments held as Cash Equivalents" in the "Financial Revenues" of the Statement of Loss and Comprehensive Loss (see Note 4).

NOTES TO THE FINANCIAL STATEMENTS (Unaudited)
Periods ended March 31

2. Accounting Policies (cont'd)

Temporary Investments

Temporary investments are instruments held-for-trading because they will be used for short term cash needs. These investments are recorded at fair value. Increases and decreases in fair value are recognized as investment income and presented under "Change in the Value of Temporary Investments" in the "Financial Revenues" of the Statement of Loss and Comprehensive Loss (see Note 4).

Loans and Receivables

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

Other Liabilities

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

Transaction Costs

Transaction costs related to held-for-trading financial assets are expensed as incurred. Transaction costs related to other liabilities and to loans and receivables are added to the carrying value of the asset or are netted against the carrying value of the liability and are then recognized over the expected life of the instrument using the effective interest method.

Fair Value

The fair value of a financial instrument is equal to the amount at which this instrument could be traded knowingly and willingly between the parties involved. Fair value is based on the published prices (buy/ask prices) in an active market. In absence of such prices, fair value is based on the prevailing market prices for instruments with similar risk profiles and characteristics or on internal or external valuation models that use observable market data.

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

NOTES TO THE FINANCIAL STATEMENTS (Unaudited)
Periods ended March 31

2. Accounting Policies (cont'd)

Financial Instruments: Disclosures

The IASB issued an amendment to IFRS 7 - Financial Instruments: Disclosures, as part of its comprehensive review of off balance sheet activities, which is applicable to financial statement covering periods beginning on after July 1, 2011. The amendment allows users of financial statements to improve their understanding of transfer transactions of financial assets (for example, securitizations), including understanding the possible effects of any risks that may remain with the entity that transferred the assets. The amendment also requires additional disclosures if a disproportionate amount of transfer transactions are undertaken near the end of a reporting period. This amendment has no material impact on the Company's financial statements as the Company does not transact on financial assets other than for the purpose of making short-term investments in high-grade instruments sold or issued by counterparties with strong credit ratings.

Critical Accounting Judgments and Key Source of Estimates Uncertainty

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

The following are the critical judgments and key sources of estimation:

1. *Recoverability of intangible assets:*

   On an annual basis the Company evaluates if there are indicators of impairment. When such indicators are identified, the Company is required to perform an impairment test in order to measure the recoverable amount of its intangible assets. The main judgments made by management for the impairment test performed as of December 31, 2011 were the following:

   - Most probable discounted cash flow projections based on management's best estimate of the range of economic conditions that will exist over the remaining useful life of the intangible assets;
   - A pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the intangible assets.

2. *Inventory valuation:*

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

NOTES TO THE FINANCIAL STATEMENTS (Unaudited)
Periods ended March 31

2. Accounting Policies (cont'd)

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

3. Government assistance and research and development tax credits:

Government assistance is recorded in the financial statements when there is reasonable assurance that the Company has complied with, and will continue to comply with, all of the conditions necessary to obtain the assistance. In general, the Company recognizes 80 % of the amount that it expects to receive.

4. Stock-Based Compensation:

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

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

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

3. Future Accounting Changes

The IASB published IFRS 9 "Financial Instruments," which replaces the provisions of IAS 39 "Financial Instruments: Recognition and Measurement," with regard to the classification and measurement of financial assets and liabilities. The provisions of IFRS 9 should initially apply to financial statements for periods beginning on or after January 1, 2013. On December 16, 2011, the IASB published an amendment to IFRS 9, in order to defer the mandatory effective date to annual periods beginning on or after January 1, 2015. This amendment also indicates that entities will not have to restate comparative data. However, additional disclosure on the effects at transition is required. Early adoption is permitted. The Company is currently evaluating the impact of this new standard on its financial statements.

NOTES TO THE FINANCIAL STATEMENTS (Unaudited)
Periods ended March 31

3. Future Accounting Changes (cont'd)

IFRS 13 - Fair value measurement, issued in May 2011, establishes a single framework for measuring fair value where such required measure was under other IFRS. IFRS 13 will be effective for the annual period beginning on January 1, 2013, with earlier application permitted. IFRS 13 will apply to financial and non-financial items measured at fair value. Under IFRS 13, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Company will adopt IFRS 13 for the annual period beginning January 1, 2013. A detailed review will be completed in the future in order to determine if this Standard will have any significant impact.

In May 2011, the IASB issued IFRS 10 - Consolidated Financial Statements, IFRS 11 – Joint Ventures, IFRS 12 – Disclosures of Involvement with Other Entities, and amended IAS 27 – Separate Financial Statements and IAS 28 – Investments in Associates and Joint Ventures, all applicable for annual period beginning on or after January 1, 2013. However, these standards do not need to be addressed in this note because they deal with situations that are not currently applicable to the Company.

In June 2011, the IASB also issued an amendment to IAS 1 - Presentation of Items of Other Comprehensive Income that will be effective for the annual period beginning on July 1, 2012. This amendment requires items of other comprehensive income items to be grouped into those that will and will not be reclassified to profit and loss in the future. Retrospective application is required. Earlier application of this standard is permitted. As the Company does not have Comprehensive Income, there will be no impact.

4. Financial Revenues and Expenses

	FIRST QUARTER	
	2012	2011
	$	$
Financial Revenues		
Investment Income	**(32,295)**	(1,437)
Change in the Value of Investments held as Cash Equivalents	**5,338**	(12,142)
Change in the Value of Temporary Investments	**(6,063)**	(52,307)
	(33,020)	(65,886)
Financial Expenses		
Bank Charges	**3,712**	1,217
Foreign Exchange Loss	**3,284**	3,469
Miscellaneous	**10**	1,092
	7,006	5,778

NOTES TO THE FINANCIAL STATEMENTS (Unaudited)
Periods ended March 31

5. Additional Information on Statement of Loss and Comprehensive Loss

Expenses (revenues) included in functions	FIRST QUARTER 2012 $	2011 $
Salary & Other Benefits	**1,350,263**	1,206,578
Operating		
Customer Support and Communications		
Research & Development		
Administration		
Depreciation of Property, Plant and Equipment	**103,515**	77,052
Operating		
Customer Support and Communications		
Research & Development		
Administration		
Amortization of Intangible Assets	**74,353**	77,768
Operating		
Customer Support and Communications		
Research & Development		
Administration		

6. Financial Instruments

Cash and Cash Equivalents

	March 31 2012 $	December 31 2011 $
Cash	**3,308,385**	3,791,250
Bank - Guaranteed Investment Certificate	**3,570,377**	3,556,566
Short-term Investments less than three months		
Money Market Funds	**1,438,911**	1,434,391
	8,317,673	8,782,207

As of March 31, 2012, Bank Guaranteed Investment Certificates were rated AA- or better and had a yield of 1.45 % (rated AA- or better and had a yield of 1.55 % as of December 31, 2011). Money market funds were rated AA- (AA- as of December 31, 2011)

NOTES TO THE FINANCIAL STATEMENTS (Unaudited)
Periods ended March 31

6. Financial Instruments (cont'd)

Temporary Investments

	March 31 2012 $	December 31 2011 $
Bonds	**1,538,229**	2,602,166

As of March 31, 2012, the bond held was rated A+ (rated from AA- to A+ as of December 31, 2011) and having a yield of 1.40 % (1.29% as of December 31, 2011).

All investments of the Company are classified as level 1 under IFRS 7.

The Company is exposed to various risks, including the risks related to holding financial instruments. To manage the risk related to the use of financial instruments contained in the various investments that make up cash and cash equivalents and temporary investments, controls have been implemented, in particular the investment policy. TSO_3 primarily aims to optimize returns from a cash flow perspective 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 its measurement, particularly interest rates and exchange rates.

Interest rate risk

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

At March 31, 2012, if interest rates on that date had been 0.5% lower, and all other variables held constant, the net loss and comprehensive loss for the quarter would have been $1,703 lower ($13,575 as of March 31, 2011), arising mainly as a result of an increase in the fair value of fixed rate financial assets classified as held for trading. If the interest rates on that date had been 0.5% higher, all other variables being held constant, the net loss and comprehensive loss for the quarter would have been $1,694 higher ($13,485 as of March 31, 2011), arising mainly as a result of a decrease in the fair value of fixed rate financial assets classified as held for trading. The net loss therefore has a similar sensitivity to interest rate increases and interest rate decreases.

NOTES TO THE FINANCIAL STATEMENTS (Unaudited)
Periods ended March 31

6. Financial Instruments (cont'd)

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 maximum exposure to credit risk is equal to the amounts recognized as accounts receivable, cash and cash equivalents and temporary investments.

The Company has established an Investment Policy that addresses credit risk management and includes the authorization to enter into investment transactions with the Canadian federal or provincial governments, crown corporations, municipalities or financial institutions, either in money market funds, guaranteed investment certificates or bonds with credit ratings of a minimum of A- or better according to the rating scale of Standard and Poor's or the equivalent for other credit rating agencies. This policy defines credit risk limits based on the characteristics of the counterparties. Therefore, the Company manages credit risk by complying with its established Investment policy.

As at March 31, 2012, the Company's investments were rated by at least two recognized agencies, and they were in conformity with the Company's Investment policy.

Concentration risk

Concentration risk exists when investments are made with multiple entities that share similar characteristics or when a large investment is made with a single entity. As of March 31, 2012, in accordance with the Company's investment policy, there was no single investment, other than bank deposits or investments benefiting from a government guarantee that exceeded 30% of the liquid assets.

Liquidity risk

Liquidity risk represents the possibility that the Company would be unable to monetize its financial instruments so as to meet financial commitments at the appropriate time and under reasonable conditions.

The Company's maximum exposure to liquidity risk is equal to the amounts recognized as accounts payable and accrued liabilities and these amounts will be paid in the following year. The Company manages this risk by maintaining permanent and sufficient liquidity to meet current and future financial obligations, under both normal and exceptional circumstances. The funding strategies used to manage this risk include turning to capital markets to carry out issues of equity and debt securities.

NOTES TO THE FINANCIAL STATEMENTS (Unaudited)
Periods ended March 31

6. Financial Instruments (cont'd)

Currency risk

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

As of March 31, 2012, if the Canadian dollar had weakened 10 percent against the US dollar with all other variables held constant, the net loss and comprehensive loss for the quarter would have been $4,122 lower ($7,648 as of March 31, 2011). Conversely, if the Canadian dollar had strengthened 10 percent against the US dollar with all other variables held constant, the net loss and comprehensive loss for the quarter would have been $4,122 higher ($7,648 as of March 31, 2011).

7. Accounts receivable

	March 31 2012 $	December 31 2011 $
Accounts Receivable	**1,045,522**	1,206,551
Tax credits receivable	**124,901**	589,200
Other	**119,227**	97,719
	1,289,650	1,893,470

As of March 31, 2012, an amount of $96,334 is receivable from 3M ($456,952 as of December 31, 2011).

There were no bad debt allowances as of March 31, 2012 (none as of December 31, 2011).

8. Inventories

	March 31 2012 $	December 31 2011 $
Raw Materials	**724,658**	730,465
Work in Progress	**1,208**	198,657
Finished Goods	**159,050**	191,360
	884,916	1,120,482

Operating expenses include no write-down of inventories in the first quarter of 2012 (none in the first quarter of 2011).

During the first quarter of 2012, the Company transferred $134,169 to its fixed assets as sterilizers used within its R&D activities (none in the first quarter of 2011).

NOTES TO THE FINANCIAL STATEMENTS (Unaudited)
Periods ended March 31

9. Property, Plant and Equipment

	Office furniture $	Lift truck $	Equipment and tools $	Sterilizers used internally $	Stand $	Hospital equipment $	Computer equipment $	Leasehold Improve-ments $	Total $
Cost									
Balance at January 1, 2012	186,189	14,115	1,121,985	794,509	22,735	278,370	528,305	197,788	3,143,996
Additions	-	-	13,552	134,169	-	64,922	7,577	-	220,220
Balance at March 31, 2012	186,189	14,115	1,135,537	928,678	22,735	343,292	535,882	197,788	3,364,216
Accumulated depreciation									
Balance at January 1, 2012	121,493	13,410	787,549	189,184	20,497	114,896	488,785	189,801	1,925,615
Depreciation	3,441	176	24,668	43,080	224	24,874	5,193	1,859	103,515
Balance at March 31, 2012	124,934	13,586	812,217	232,264	20,721	139,770	493,978	191,660	2,029,130
Net book value at March 31, 2012	61,255	529	323,320	696,414	2,014	203,522	41,904	6,128	1,335,086

NOTES TO THE FINANCIAL STATEMENTS (Unaudited)
Periods ended March 31

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

	Office furniture $	Lift truck $	Equipment and tools $	Sterilizers used internally $	Stand $	Hospital equipment $	Computer equipment $	Leasehold Improve-ments $	Total $
Cost									
Balance at January 1, 2011	185,970	14,115	1,053,298	431,445	22,735	180,810	491,176	195,598	2,575,147
Additions	219	-	68,687	532,033	-	97,560	37,129	2,190	737,818
Write-off	-	-	-	(168,969)[1)]	-	-	-	-	(168,969)
Balance at December 31, 2011	186,189	14,115	1,121,985	794,509	22,735	278,370	528,305	197,788	3,143,996
Accumulated depreciation									
Balance at January 1, 2011	105,329	11,998	689,672	189,294	18,593	38,366	458,677	166,331	1,678,260
Depreciation	16,164	1,412	97,877	129,631	1,904	76,530	30,108	23,470	377,096
Eliminated on write-off of assets	-	-	-	(129,741)	-	-	-	-	(129,741)
Balance at December 31, 2011	121,493	13,410	787,549	189,184	20,497	114,896	488,785	189,801	1,925,615
Net book value at December 31, 2011	64,696	705	334,436	605,325	2,238	163,474	39,520	7,987	1,218,381

[1)] In 2011, the Company wrote-off an amount of $168,969 for sterilizers of the former generation which were no longer used in its R&D activities

NOTES TO THE FINANCIAL STATEMENTS (Unaudited)
Periods ended March 31

10. Intangible Assets

	Technology $	Patents $	License $	Software $	Trademarks $	Web site $	Total $
Cost							
Balance at January 1, 2012	2,978,874	789,174	991,063	594,125	101,535	54,691	5,509,462
Additions	-	12,444	-	-	1,009	-	13,453
Balance at March 31, 2012	2,978,874	801,618	991,063	594,125	102,544	54,691	5,522,915
Accumulated amortization							
Balance at January 1, 2012	1,042,607	152,185	495,531	517,918	21,564	52,922	2,282,727
Amortization	37,235	9,942	15,485	8,861	2,388	442	74,353
Balance at March 31, 2012	1,079,842	162,127	511,016	526,779	23,952	53,364	2,357,080
Net book value at March 31, 2012	1,899,032	639,491	480,047	67,346	78,592	1,327	3,165,835

	Technology $	Patents $	License $	Software $	Trademarks $	Web site $	Total $
Cost							
Balance at January 1, 2011	2,978,874	743,870	991,063	520,375	76,642	54,691	5,365,515
Additions	-	45,304	-	73,750	24,893	-	143,947
Balance at December 31, 2011	2,978,874	789,174	991,063	594,125	101,535	54,691	5,509,462
Accumulated amortization							
Balance at January 1, 2011	893,663	113,858	433,590	461,552	13,289	49,384	1,965,336
Amortization	148,944	38,327	61,941	56,366	8,275	3,538	317,391
Balance at December 31, 2011	1,042,607	152,185	495,531	517,918	21,564	52,922	2,282,727
Net book value at December 31, 2011	1,936,267	636,989	495,532	76,207	79,971	1,769	3,226,735

NOTES TO THE FINANCIAL STATEMENTS (Unaudited)
Periods ended March 31

11. Warranty Provision

	March 31 2012 $	December 31 2011 $
Balance at beginning	**88,972**	27,189
Additional provisions recognized	**30,000**	105,154
Amounts used during the period	**(31,072)**	(16,127)
Unused amounts reversed during the period	**(833)**	(27,244)
Balance at the end	**87,067**	88,972

12. License Revenues and Deferred Revenues related to License

As of March 31, 2012, an amount of $1,428,127 ($1,480,696 as of December 31, 2011) is presented in the non-current deferred revenues and an amount of $210,275 ($210,275 as of December 31, 2011) is included in current deferred revenues.

13. Share-Capital

Authorized

An unlimited number of shares

Common, voting, participating, without par value

Class A, voting, participating, with a par value of $1.00 each

Class B, voting, participating, without par value

Issued and paid	**Number of Common Shares**	**March 31 2012 $**	Number of Common Shares	December 31 2011 $
Balance at beginning	**58,785,682**	**89,920,532**	58,022,451	88,067,517
Options exercised	**-**	**-**	13,231	32,765
Warrants exercised	**-**	**-**	750,000	1,820,250
Balance at end	**58,785,682**	**89,920,532**	58,785,682	89,920,532

NOTES TO THE FINANCIAL STATEMENTS (Unaudited)
Periods ended March 31

13. Share-Capital (cont'd)

In 2012, no option was exercised by the holders. For the same quarter in 2011, holders exercised certain options and subscribed for 3,600 shares for a cash consideration of $4,860.

Shareholder Rights Plan Agreement

The Board of Directors of TSO_3 has adopted a shareholder rights plan agreement (the "Plan") designed to foster fair treatment of all shareholders in connection with any take-over bid for TSO_3. TSO_3's shareholders ratified the Plan at the last annual and special shareholder meeting held on April 25, 2012.

The Plan has been designed to give the Board and shareholders more time to fully consider any take-over bid and to provide the Board with more time to pursue, if appropriate, other alternatives to maximize shareholder value.

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (Unaudited)
Periods ended March 31

13. Share-Capital (cont'd)

Employee Stock Purchasing Plan

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

14. Reserve – Stock Option Plan

The Company's board of directors adopted a stock option plan solely for directors, executives, key employees and service providers of the Company, which was approved by its shareholders. The total number of common shares that can be issued under this plan from the Company's share capital was, as of March 31, 2012, 4,381,293 (4,381,293 as of December 31, 2011). The total number of common shares reserved for the exercise of stock options in favour of a holder cannot, at any time, represent more than 5% of the Company's common shares issued and outstanding at the time options are granted to such holder. The options granted pursuant to this plan generally vest over a three-year period and may be exercised within a maximum of 10 years of the grant date. During the first quarter of 2012, the Company awarded 28,000 stock options (709,400 for the year ended December 31, 2011) at a weighted average exercise price of $1.53 ($1.74 for the year ended December 31, 2011). The weighted average fair value of these stock options was $0.73 per option ($0.74 in 2011).

The Stock-Based Compensation expense pertaining to the options granted has been amortized using the graded vesting method and represents a Stock-Based Compensation expense of $65,883 for the first quarter of 2012 ($25,209 for the first quarter of 2011) presented as part of the "Administrative expenses".

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

	March 31 2012	December 31 2011
Acquisition Date Share Price	**$1.51**	$1.70
Exercise Price	**$1.53**	$1.74
Risk Free Interest Rate	**2.27%**	2.95%
Estimated Share Price Volatility	**41%**	34%
Expected Life	**8 years**	8 years
Expected Dividend Yield	**0%**	0%

NOTES TO THE FINANCIAL STATEMENTS (Unaudited)
Periods ended March

14. Reserve – Stock Option Plan (cont'd)

The Stock-Based Compensation expenses takes into account an estimate of the number of options which will vest and be exercised. In addition, option pricing models such as the Black & Scholes model require highly subjective valuations, including the assumed stock price volatility of the underlying shares. Volatility was estimated for the 2012 and 2011 grants by calculating the historical volatility of the company's share price prior to the date of grant and adjusted for the expected life of the options. Any change in the assumptions can materially affect the fair value estimates.

	March 31, 2012		December 31, 2011	
	Number	**Weighted Average Exercise Price $**	Number	Weighted Average Exercise Price $
Outstanding at beginning	**3,748,645**	**1.08**	3,338,415	1.05
Granted	**28,000**	**1.53**	709,400	1.74
Exercised	**-**	**-**	(13,231)	1.40
Expired	**(5,000)**	**2.30**	(125,265)	1.85
Forfeited	**(20,667)**	**1.70**	(160,674)	2.59
Outstanding at end	**3,750,978**	**1.08**	3,748,645	1.08
Exercisable at end	**2,945,578**	**0.93**	2,950,578	0.93

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

	Outstanding options		**Exercisable options**	
Exercise price	**Number**	**Average remaining contractual life (years)**	**Number**	**Average remaining contractual life (years)**
$0.24 to $1.97	3,472,962	5.83	2,667,562	5.01
$2.20 to $2.90	199,011	4.90	199,011	4.90
$3.10 to $3.45	79,005	3.25	79,005	3.25
	3,750,978	5.75	2,945,578	4.96

NOTES TO THE FINANCIAL STATEMENTS (Unaudited)
Periods ended March 31

15. Reserve - Warrants

Concurrently with the issue of 10,000,000 shares on March 2, 2010, 750,000 warrants were granted. Each warrant could be used to purchase one common share of the Company at a price of $1.60 and were exercised in 2011 prior to their September 2, 2011 expiry date.

	March 31 2012 Number	**March 31 2012 Exercise Price $**	December 31 2011 Number	December 31 2011 Exercise Price $
Outstanding at beginning	**-**	**-**	750,000	1.60
Exercised	**-**	**-**	(750,000)	1.60
Outstanding at end	**-**	**-**	-	-
Exercisable at end	**-**	**-**	-	-

At any time when warrants expire without being exercised or are being cancelled, the Company is authorized to transfer to the Accumulated Deficit the amount corresponding to such warrants that would be in the balance of the Reserve for Warrants. Such authorization has not been used in 2012 (used in 2011 for a total amount of $4,870,179).

16. Capital Management

The Company needs capital primarily to finance its research and development activity, its operating, administrative and marketing expenses, its working capital and its capital expenditures. In the past, the Company has financed its activities through various rounds of public and private financing as well as through government grants. Depending on the quality of the credit structure of a prospective debt transaction and prevailing market conditions, the Company could finance a portion of its cash needs through debt issues.

17. Income Taxes

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

The deferred income tax assets related will be recorded in the financial statements, resulting in an increase in earnings and shareholders' equity, once the Company concludes that these losses likely will be realized. At the same time, a deferred income tax liability related to the cost of the intangible assets for tax purposes will also be recorded. If the Company had concluded on March 31, 2012 that these items would likely be materialized, based on an effective rate of 15% for federal taxes and 11.9% for provincial taxes, it would have recorded an aggregate net amount of $21,200,000 in tax assets.

NOTES TO THE FINANCIAL STATEMENTS (Unaudited)
Periods ended March 31

18. Research and development tax credits

The tax credits claimed for the fiscal year ending on December 31, 2011 have not been reviewed by the tax authorities. Consequently, the amount of tax credits that will be awarded could differ from the ones already recorded.

19. Segmented Information

The Company is structured as a single operating segment. Almost all fixed assets of the Company are located in Canada.

Operating revenues are allocated between geographic areas based on the location of the client and are as follows for periods ended March 31:

	FIRST QUARTER			
	2012		2011	
	$	**%**	$	%
Canada	**681,057**	**94**	61,322	45
Worldwide	**46,665**	**6**	75,306	55
	727,722	**100**	136,628	100

The Company earns an important part of its revenues from a customer under a long-term commercial agreement. For the first quarter ended March 31, 2012, these revenues represented 44 % of the Company's sales (7% for the same period in 2011). Shipments to that client were made in Canada and elsewhere in the world outside the United States.

For the first quarter of 2012, license revenues, in the amount of $52,569 ($52,569 for the same period in 2011), also resulted from this commercial agreement (see note 12).

NOTES TO THE FINANCIAL STATEMENTS (Unaudited)
Periods ended March 31

20. Loss per Share

The following table reconciles the basic and the diluted loss per share for periods ended March 31:

	FIRST QUARTER	
	2012	2011
	$	$
Net Loss		
Basic and Diluted	**2,008,848**	1,880,010
Number of Shares		
Weighted Average Number of Outstanding Shares[1)]	**58,785,682**	58,024,508
Loss per Share		
Basic	**0.03**	0.03
Diluted [2)]	**0.03**	0.03

1) The calculation of the weighted average number of outstanding shares is determined as a function of the number of outstanding common shares based on the fraction of the period during which the shares were outstanding.
2) The weighted average number of outstanding shares is the same number used in the calculation of the diluted net loss per share since the inclusion of common shares resulting from the eventual exercise of options and warrants is antidilutive, in the calculation of the diluted per share amount of a loss.

21. Approval of Financial Statements

The financial statements were approved by the Board of Directors on May 8, 2012.

22. Subsequent Event

The Company has entered into an agreement with a syndicate of underwriters led by Desjardins Capital Markets and Canaccord Genuity Corporation, pursuant to which the Underwriters have agreed to purchase, on a bought deal private placement basis, 6,000,000 units in the capital of TSO3 at the price of $1.30 per Unit for aggregate gross proceeds to TSO3 of $7,800,000. The Company had also agreed to grant the Underwriters an option to purchase up to an additional 900,000 Units at $1.30 for additional aggregate gross proceeds to TSO3 of $1,170,000. This option was exercised. Closing of the issue occurred on April 24, 2012.

Each Unit is comprised of one common share and one-half of one warrant issued by the Company. Each warrant entitles the holder thereof to purchase one additional common share of the Corporation at a price of $2.00 per common share. The warrants expire on the earlier of (1) April 24, 2013 or (2) on the date falling 30 days after a written notice from the Company stating that the published closing price of the Company's common shares on the TSX was equal to, or higher than, $2.50 for a period of 10 consecutive trading days occurring after August 24, 2012.

NOTES TO THE FINANCIAL STATEMENTS (Unaudited)
Periods ended March 31

22. Subsequent Event (cont'd)

The Corporation has agreed to pay the Underwriters a cash fee equal to 8.0% of the gross proceeds from the Offering. As additional compensation, the Underwriters will be issued compensation options equal to 5.0% of that number of Units issued in connection with the Offering. Each Compensation Option will be exercisable to acquire one common share at the exercise price of $1.30 until September 24, 2013, subject to regulatory approval.

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Ticker Symbol: TOS (TSX)