# TARGETED MICROWAVE SOLUTIONS INC

## Condensed Consolidated Interim Financial Statements
## (Unaudited)

## Nine months ended September 30, 2015

## (in Canadian dollars)

# TARGETED MICROWAVE SOLUTIONS INC

## Condensed Consolidated Interim Financial Statements

## (Unaudited)

The accompanying unaudited condensed consolidated interim financial statements have been prepared by management and have not been the subject of a review by the Company's external independent auditors.

# Targeted Microwave Solutions Inc

## Condensed Consolidated Interim Statement of Financial Position

(in Canadian dollars)
(Unaudited)

| | Notes | | **September 30, 2015** | | December 31, 2014 |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| **Current** | | | | | |
| Cash | 5, 13 | **$** | **4,340,297** | $ | 32,883 |
| Receivables | | | **103,483** | | 81,845 |
| Prepaid expenses | | | **7,310** | | 97,560 |
| | | | **4,451,090** | | 212,288 |
| Property and equipment | 6 | | **4,702,736** | | 642,169 |
| **Total assets** | | **$** | **9,153,826** | $ | 854,457 |
| **LIABILITIES** | | | | | |
| **Current** | | | | | |
| Accounts payable and accrued liabilities | 8 | **$** | **700,861** | $ | 9,740 |
| Performance Share liability | 10e | | **107,061** | | |
| Derivative liability | 10h | | **1,266,624** | | 530,099 |
| Loans payable | 9 | | | | 838,861 |
| | | | **2,074,546** | | 1,378,700 |
| **CAPITAL DEFICIT** | | | | | |
| Share capital, net of reserves | 10b | | **11,124,792** | | - |
| Net investment in Transferred Assets of Microcoal Technologies Inc. | 10c | | | | 557,751 |
| Deficit | | | **(4,550,354)** | | (1,081,994) |
| Accumulated other comprehensive loss | | | **504,842** | | - |
| | | | **7,079,280** | | (524,243) |
| **Total liabilities and captial deficit** | | **$** | **9,153,826** | $ | 854,457 |

**Approved on behalf of the Board:**

"James Young"
Director

"Stephen D. Crocker"
Director

# Targeted Microwave Solutions Inc

## Condensed Consolidated Interim Statements of Changes in Equity

## For the nine months ended

(in Canadian dollars)

(Unaudited)

| | Notes | Shares | Amount | Net Investment in Transferred Assets | Share-based payment reserves | Common Control Transaction Reserve | Restricted Share Unit Reserves | Deficit | Cumulative other comprehensive income | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| Balance, January 1, 2014 | | - | $ - | $ 39,477 | $ - | $ - | $ - | $ - | $ - | $ 39,477 |
| Share-based compensation | | | | | 40,048 | | | | | 40,048 |
| Loss for the period | | - | - | | - | | | (1,028,147) | - | (1,028,147) |
| Net Contributions from Microcoal Technologies Inc. | | - | - | 1,022,841 | - | | | - | - | 1,022,841 |
| Balance, September 30, 2014 | | - | $ - | $ 1,062,318 | $ 40,048 | $ - | $ - | $ (1,028,147) | $ - | $ 74,219 |
| Balance, January 1, 2015 | | - | $ - | $ 498,343 | $ 59,408 | $ - | $ - | $ (1,081,994) | $ - | $ (524,243) |
| May 21, 2015 Effective Date - Plan of Arrangement | | 179,500,076 | 26,925,011 | (498,343) | (59,408) | (16,673,241) | - | 1,660,310 | 116,109 | $ 11,470,438 |
| Restricted Share Units Award | 10 | - | - | | - | | 179,387 | - | - | 179,387 |
| Stock Option award to employees/consultants | | | | | 693,635 | | | | | 693,635 |
| Loss for the period | | - | - | | - | | - | (5,128,670) | - | (5,128,670) |
| Other comprehensive income (loss) | | - | - | | - | | - | - | 388,733 | 388,733 |
| **Balance, September 30, 2015** | | 179,500,076 | $ 26,925,011 | $ - | $ 693,635 | $ (16,673,241) | $ 179,387 | $ (4,550,354) | $ 504,842 | $ 7,079,280 |

## Targeted Microwave Solutions Inc

### Condensed Consolidated Interim Statements of Comprehensive Income (loss)

### For the three and nine months ended

(in Canadian dollars)

(Unaudited)

| | Note | Three months ended September 30, 2015 | Three months ended September 30, 2014 | Nine months ended September 30, 2015 | Nine months ended September 30, 2014 |
|---|---|---|---|---|---|
| **Expenses** | | | | | |
| Site supples, services and other | | $ 45,504 | $ - | $ 57,347 | $ - |
| Plant and equipment depreciation | | 149,483 | - | 149,483 | - |
| Consulting, management and director fees | 11 | 562,483 | 236,837 | 1,459,071 | 543,483 |
| Office, rent and other | | 90,840 | 70,383 | 152,342 | 95,675 |
| Professional fees | | 134,361 | 187,801 | 380,844 | 241,643 |
| Share-based compensation | 11, 9g | 816,572 | 10,344 | 1,563,022 | 40,048 |
| Travel and promotion | | 58,322 | 80,217 | 126,085 | 107,297 |
| **Loss before other items** | | **1,857,565** | **585,582** | 3,888,194 | 1,028,146 |
| Other (income) expenses | | | | | |
| Interest Income | | (26,148) | | (26,148) | |
| Fair value change in derivative liability | 9h | (469,979) | - | 1,266,624 | - |
| | | (496,127) | - | 1,240,476 | - |
| **Net loss for the period** | | **1,361,438** | **585,582** | 5,128,670 | 1,028,146 |
| Other comprehensive income (loss) | | | | | |
| Exchange gain - translation of foreign operations | | (9,763) | - | - | - |
| **Total comprehensive income (loss)** | | **$ 1,351,675** | **$ 585,582** | $ 5,128,670 | $ 1,028,146 |
| **Income (loss) per share, basic** | | $ (0.01) | | $ (0.03) | |
| **Income (loss) per share, diluted** | | $ (0.01) | | $ (0.03) | |

## Targeted Microwave Solutions Inc

### Condensed Consolidated Interim Statements of Cash Flows

### For the nine months ended

(in Canadian dollars)

(Unaudited)

| | Note | Nine months ended September 30, 2015 | Nine months ended September 30, 2014 |
|---|---|---|---|
| **Cash provided by (used in):** | | | |
| **Operating Activities** | | | |
| Net loss for the period | | $ (5,128,670) | $ (1,028,146) |
| Items not involving cash: | | | |
| Performance Share liability | | 107,061 | |
| Fair value of Share-based compensation | 9g | 1,563,022 | 40,048 |
| Depreciation | 6 | 149,483 | - |
| Fair value change in derivative liability | 10h | 1,266,624 | - |
| | | (2,042,480) | (988,098) |
| Change in non-cash working capital: | | | |
| Receivables | | (21,638) | (47,811) |
| Prepaid Expenses | | 90,250 | |
| Accounts payable and accrued liabilities | | 3,292 | 30 |
| | | (1,970,576) | (1,035,879) |
| **Investing Activity** | | | |
| Purchase of property and equipment | 6 | (4,210,050) | - |
| | | (4,210,050) | - |
| **Financing Activity** | | | |
| Net contributions from Microcoal Technologies Inc. | | - | 1,022,841 |
| Loan Repayment/ Proceeds | | (1,368,960) | 13,038 |
| Private placement share issuance | | 11,857,000 | |
| | | 10,488,040 | 1,035,879 |
| **Increase (decrease) in cash** | | 4,307,414 | - |
| **Cash, beginning of period** | | 32,883 | - |
| **Cash, end of period** | | $ 4,340,297 | $ - |

| Supplemental cash flow information: | 4 |
|---|---|

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

(in Canadian dollars)

## 1. GENERAL INFORMATION

Targeted Microwave Solutions Inc., ("the Company or "Targeted" or "TMS") was incorporated on April 10, 2015 under the British Columbia Business Corporation Act. On May 21, 2015, the Company and MicroCoal Technologies Inc. ("Microcoal" or "MTI") completed a Plan of Arrangement ("the Arrangement") pursuant to the British Columbia Business Corporations Act. Under terms of the Arrangement, every Microcoal shareholder received one share in the Company for every share held in MicroCoal at the effective date.

The consolidated financial statements comprise the Company and its wholly-owned subsidiary Targeted Microwave Solutions (USA) Inc. (together referred to as the "Group"), 100% of Targeted Microwave Solutions (MD) Inc., currently inactive, and the Company's 51% owned subsidiary Targeted Microwave Solutions Hong Kong Limited ("TMS HK"). TMS HK is currently inactive.

The Company is a reporting issuer in the provinces of Alberta, British Columbia and Ontario and the Company's shares are listed for trading on the Canadian Securities Exchange (the "CSE") under the symbol "TMS" and began trading on May 22, 2015. The company is also listed on the OTCQX under the symbol "TGTMF".

The Company is an Industrial Technology company in the business of developing patented technologies to dewater, decontaminate and upgrade low-rank coals and other industrial aggregates for use by power utilities and industrial companies. The Company has completed the construction and commissioning of a commercial scale pilot plant facility located in King William, Virginia where it will advance research and development of its microwave based technology.

The Company's head office is located at Suite 2300, 1066 West Georgia Street, Vancouver, B.C., V63 3X2, the registered and records office is located at 1000 - 925 West Georgia Street, Vancouver, British Columbia, Canada, V6C 3L2.

## 2. BACKGROUND AND BASIS OF PREPARATION

### Plan of arrangement

on May 21, 2015 Targeted and Microcoal completed the Arrangement. The Company was incorporated for purposes of participating in the Arrangement. Since the shareholders of Targeted and Microcoal upon close of the Arrangement were the same, this transaction was deemed a common- control transaction. On that basis, the Company elected to recognize the assets and liabilities assumed by Targetted, including property and equipment at the carrying amount of MTI assets.

Upon the effective time of the Arrangement: every Microcoal Shareholder received one share of Targeted for each share held in Microcoal at the effective date. Also, on the effective date of the Arrangement, every Microcoal warrant holder, was able to exchange each Microcoal warrant held for one warrant in Targeted. Each new Targeted warrant contained the same exercise price and terms as each Microcoal warrant. As part of the Plan of Arrangement, TMS ammended the pricing and terms of the warrants to $0.20 per share and a expiry of January 31, 2016 at the warrant holders option.

Pursuant to the Arrangement, Microcoal transferred substantially all right, title, and interest to assets and property, involved in the research and development of the Microcoal technology business, including all cash, receivable, certain payables, promissory notes, contracts, tangibles, intellectual property, property, leasehold improvements, equipment, securities in Targeted Microwave Solutions (USA) Inc and Targeted Microwave Solutions (Hong Kong) Limited referred to here as ("Transferred Assets"). Pursuant to the Arrangement certain books, records, contracts and interests, obligations and trademarks not directly applicable to the technology business were not transferred.

### Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with IAS 34 "Interim financial reporting" using accounting policies consistent with International Financial Reporting Standards ("IFRS") as presribed by the International Accounting Standards Board.

These condensed consolidated interim financial statements were reviewed by the Audit Committee and approved and authorized for issue by the Board of Directors on November 25, 2015.

### Basis of consolidation

These condensed consolidated financial statements include the accounts of the Company and the following subsidiaries. All intercompany transactions and balances have been eliminated. Subsidiaries are entities controlled by the Company. Control exists when the Company has power over an investee, when the Company is exposed, or has rights, to variable returns from the investee and when the Company has the ability to affect those returns through its power over the investee. Subsidiaries are included in the consolidated financial results of the Company from the effective date of acquisition up to the effective date of disposition or loss of control. Targeted Microwave Solutions Hong Kong Limited and Targeted Microwave Solutions MD Inc. are currently inactive. The comparative period includes account items selected and adjusted from varioius subsidiaries of Microcoal.

| | Country of incorporation | Ownership - September 30, 2015 |
|---|---|---|
| Targeted Microwave Solutions (USA) Inc. ("TMS USA") | USA | 100% |
| Targeted Microwave Solutions Hong Kong Limited ("TMS HK") | Hong Kong | 51% |

### Functional and presentation currency

The functional currency of Targeted Microwave Solutions Inc, and related entities is the US dollar. Monetary assets and liabilities denominated in a foreign currency are translated into US dollars at the exchange rates prevailing at the reporting date and non-monetary assets and liabiilties are translated at exchange rates prevailing when the assets were acquired or obligations incurred. Foreign currency denominated expense items are translated at exchange rates prevailing at the transaction date. Gains or losses arising from such translations are included in the statement of comprehensive income (loss).

Financial statements for all periods presented have been translated from US dollars into Canadian dollars using the current rate method. Using this method, all the condensed consolidated assets and liabilities have been translated using the exchange rate at the reporting dates, while shareholders' equity has been translated using the historical rates of exchange in effect on the dates of the corresponding transactions. The condensed consolidated statement comprehensive income (loss) has been translated using the prevailing average exchange rate for the period, except for equity transactions which have been translated using the historical rates in effect at the dates of the corresponding transactions. Any resulting exchange rate differences due to this translation are included in shareholders' equity as accumulated other comprehensive income or loss.

### Basis of measurement

The financial statements present the historic position, results of operations and cash flows of the transferred MTI Assets for all prior periods up to and including May 21, 2015, on a carve-out basis as if the entity had operated on a stand-alone entity subject to Microcoal's control (carve-out financial statements). The financial position, results of operations and cash flows from January 1, 2015 to May 21, 2015 include both the MTI Assets and Targeted on a combined basis and from May 21, 2015 to June 30, 2015 include the actual historical results of Targeted after assuming the MTI Assets upon close of the Arrangement.

The basis of allocation of certain assets, liablilities and expenses from Microcoal information (MTI Assets) is described below:

Cash attributable to MTI Assets include cash specifically raised for the development and settlement of MTI Assets.

Receivable attributable to MTI Assets comprise of goods and service (GST) refunds from activities connected to the transferred assets .

Prepaid expenses includes amount directly attributable to MTI Assets.

Property and Equipment related to MTI Assets were carved-out based on historical cost records of Microcoal in the construction and related assets of the commercial scale pilot plant located in King Williams, Virginia.

Accounts payable and accrued liabilities related to the MTI Assets were directly attributable to MTI Assets and include the pilot plant construction.

Consulting fees were allocated to MTI Assets on the basis of individuals directly involved in the design, planning and execution of the construction of the King William, Virginia pilot plant project.

General and Administrative costs (G&A) were allocated to the MTI Assets based on the proportion of King William, Virginia pilot plant expenditures to total expenditures in Microcoal.

Share based compensation expense were allocated to the MTI Assets based on the proportion of King William, Virginia pilot plant expenditures to total expenditures in Microcoal

Equity in MTI Assets is shown as a net investment in place of Shareholders' Equity because a direct ownership by shareholders in the transferred assets did not exist. All cash flows deficiencies and capital expenditures are assumed to be funded by Microcoal through the net investment.

### Property and equipment

Property and equipment are recorded at cost less accumulated amortization and impairment losses. The asset's residual value, useful life and depreciation method are evaluated annually and changes to estimated useful lives, residual values or depreciation methods resulting from such review are accounted for prospectively. Beginning with the commissioning of the King William, Virginia Plant commissioning the significant classes of depreciable property and equipment is recorded using the following rates and methods:
Plant and Equipment are being amortized at rate of 10% to 33% on a straight line basis.
Leasehold improvements are being amortized over the term of the lease on a straight-line basis

### Income taxes

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in net income except to the extent that it relates to a business combination or items recognized directly in equity or in other comprehensive loss/income.

Current income taxes are recognized for the estimated income taxes payable or receivable on taxable income or loss for the current year and any adjustment to income taxes payable in respect of previous years. Current income taxes are determined using tax rates and tax laws that have been enacted or substantively enacted by the year-end date.

Deferred tax assets and liabilities are recognized where the carrying amount of an asset or liability differs from its tax base, except for taxable temporary differences arising on the initial recognition of goodwill and temporary differences arising on the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting nor taxable profit or loss.

Recognition of deferred tax assets for unused tax losses, tax credits and deductible temporary differences is restricted to those instances where it is probable that future taxable profit will be available against which the deferred tax asset can be utilized. At the end of each reporting year the Company reassesses unrecognized deferred tax assets, The Company recognizes a previously unrecognized deferred tax asset to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

### Financial Instruments

Non-derivative financial instruments comprise of cash, receivable, accounts payable and accrued liabilities and loans payable. Non-derivative financial instruments are recognized initially at fair value net of any directly attributable transaction costs. Subsequent measurements are described below:

Cash and other short term highly liquid investments with maturity of less than three months are measured at amortized cost. Any transactions costs are recognized in profit or loss as incurred. Receivables, accounts payables and accrued liabilities, loans payable are measured at amortized cost using the effective interest method, less any impairment losses.

### Derivative Financial Instruments

Derivative financial instruments are measured at their fair value. For derivative financial instruments that are accounted for as liabilities, the derivative instrument is initially recorded at its fair value and is then re-valued at each reporting date, with changes in the fair value reported as charges or credits to net income(loss). For warrant-based and option-based derivative financial liabilities, the Company uses the Black-Scholes option pricing model to estimate fair value of the derivative instruments. To the extent that the initial fair values of the freestanding and/or bifurcated derivative instrument liabilities exceed the total proceeds received, an immediate charge to income is recognized, in order to initially record the derivative instrument liabilities at their fair value.

### Share capital

Financial instruments Issued by the Company are classified as equity, only to the extent that they do not meet the definition of a financial liability or asset. The Company's common shares, share subscriptions, share warrants, share options, restricted share units and performance share units are classified as equity instruments.Common shares issued in the Company's equity are recorded at the net proceeds received which is the fair value of the consideration received less costs incurred in connection with the issue.

### Share - based payments

The fair value of equity settled stock options awarded to employees defined under IFRS 2 (i.e. employees for legal and tax purposes, directors and certain consultants), determined as of the date of grant, and awarded to non-employees defined under IFRS 2, as of the date of delivery of service, is recognized as share-based compensation expense, included in general and administrative expenses in the statement of comprehensive income, over the vesting period of the stock options based on the estimated number of options expected to vest, with a corresponding increase to equity. The fair value of stock options is determined using the Black-Scholes option pricing model with market related inputs as of the date of grant completion or the date of delivery of service. Stock options with graded vesting schedules are accounted for as separate grants with different vesting periods and fair values. Changes to the estimated number of awards that will eventually vest are accounted for prospectively.

### Performance share units

The Company has established a performance share unit (PSU) plan for certain officers of the Company. A performance share unit represents the right to receive the cash equivalent of a common share or, at the Company's option, a common share purchased on the open market. Performance share units granted vest on the earlier of eighteen months from grant date or such earlier date upon the performance market conditions are satisfied. The number of units which will vest is determined based on the Company's share price performance (based on the preceding 30-day volume weighted average share price calculated for the 30 trading days ending on a trading day during the measurement period) relative to $0.15CAD during the applicable period. A Monte Carlo simulated option pricing model was used in estimating the value value of the performance share units that are not vested as at period end. The model requires the use of subjective assumptions, including expected stock price volatility, risk free rate of return and forefeiture rate.

The Company recognizes compensation expense for PSUs as an estimate with the related obligation recorded as a liability on the balance sheet. The amount of the compensation expense is adjusted at the end of each reporting period to reflect the fair market value of common shares and the number of PSUs anticipated to vest based on the anticipated performance factor.

### Restricted share units

The Company has granted the restricted share units (RSU) to officers, employees or directors that are settled in shares at the option of the participant. The Company recognizes stock-based compensation expense for all restricted share units at the date of grant. The fair value of the RSU at the grant date are expensed over the vesting period of the RSU with a corresponding increase to equity. The fair value of RSUs is the market value of the underlying stock at the date of grant. At the end of each reporting period, the Company re-assesses its estimates of the number of awards that are expected to vest and recognizes the impact of any revisions to this estimate in the statement of changes in equity.

### Basic and diluted loss per share

The company presents basic and diluted loss per share data for its common shares, calculated by dividing the loss attributable to common shareholders of the company by the weighted average number of common shares outstanding during the period. Diluted loss per share is determined by adjusting the loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all warrants, compensation warrants, options, deferred and restricted share units outstanding that may add to the total number of common shares.

### Standards, Amendments and Interpretations Adopted During the Period

Effective, January 1, 2015 the Company adopted the following new and revised IFRSs that were issued by the IASB. Unless otherwise stated, the application of these IFRS/s did not have any material imparct on disclosure or the amounts reported for the current or prior prerieods but may affect the disclosure and accounting for future transactions or arrangements

- Amendment to IFRS 3. Business Combinations
- Amendment to IFRS 13. Fair value measurement
- Amendment to IAS 16. Business Combinations
- Amendment to IAS 24. Business Combinations

### Standards, Amendments and Interpretations Not Yet Adopted

Certain pronouncements were issued by the IASB or the IFRIC that are mandatory for accounting periods after April 1, 2015 or later periods. Many are not applicable or do not have a significant impact to the Company and have been excluded from the summary below. The following have not yet been adopted and are being evaluated to determine their impact on the Company, IFRS 9 Financial Instruments which intends to replace IAS 39 - Financial Instruments. The IASB tentatively decided to defer the mandatory effective date until January 1, 2018 with earlier adoption still permitted.

## 3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The Company makes estimates and assumptions about the future that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In preparing these financial statements, the Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are outlined below.

### (a) Equipment and leasehold improvements

In determining the carrying values of plant, equipment and leasehold improvements, management makes estimates and uses judgment in the completion of construction, accumulation and allocation of costs of construction, in service dates, and estimating the economic useful lives of the assets. Management is required to evaluate the asset for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. The impairment test compares the carrying value of the asset to its recoverable amount, based on the higher of the assets value in use, estimated using future discounted cash flows, or fair value less cost to sell. Impairment loss calculations contain uncertainties as they require assumptions and judgment about future cash flow and asset fair value.

### (b) Outcome of contingent liabilities

Judgment is required in determining whether to record a contingent liability arising from a legal claim. There are legal actions during the ordinary course of business for which the ultimate determination of outcome is uncertain. The Company recognizes liabilities and contingencies for anticipated outcomes based on the Company's current understanding of the law. For matters where it is probable that an adjustment will be made, the Company records its best estimate of the liability. Management believes they have adequately provided for the probable outcome of these matters; however, the final outcome may result in a materially different outcome than the amount initially anticipated.

### (c) Common-control transactions

Since the shareholders of TMS upon the close of the Arrangement were the same as the shareholders of MTI immediately prior to the Arrangement, this transaction was deemed a common-control transaction. As such, the assets and liabilities assumed by TMS were originally recognized on the date of acquisition at the net carrying value of the MTI Assets according to historical cost and financial records of MTI.

### (d) Share-based payments

The Company measures the cost of cash and equity settled transactions with employees and non-employees by reference to the fair value of the related instrument at the date in which they are granted and fair value of services, respectively. Estimating fair value for share-based payments requires determining the most appropriate valuation model for a grant, which is dependent on the terms and conditions of the grant. Specifically, since TMS did not sufficient trading history to dervive an entity specific volatility, TMS used the volatility of a comparable entity.

### (e) Derivative financial instruments

Derivative financial instruments are measured at their fair value. For derivative financial instruments that are accounted for as liabilities, the derivative instrument is initially recorded at its fair value and is then re-valued at each reporting date, with changes in the fair value reported as charges or credits to net income (loss). The Company uses the Black-Scholes options pricing model to estimate the fair value of the derivative instruments. To the extent that the initial fair values of the freestanding and or bifurcated derivative instrument liabilities exceeds the total proceeds received, an immediate charge to income is recognized, in order to initially record the derivative instrument liabilities at their fair value.

(in Canadian dollars)

### (f) Carve out financial statements

The condensed consolidated interim financial statements present historic financial position, results of operations and cash flows of MTI Assets for the prior comparative period up to May 21, 2015, the Effective date of the Plan of Arrangement, on a carve-out basis as if the entity had operated as a stand-alone entity subject to Microcoal's control . Preparation of the comparative carve-out financial statements requires the use of significant judgements by management in the allocation of reported amounts of Microcoal to the carved-out assets, liabilities and expenses. The Company is required to make assumptions on the allocation of Microcoal costs to former and current lines of business. The carve-out financial statements do not necessarily reflect what the financial position, results operations and cash flows would have been had these net assets been in a separate entity, or the future results of the business, as it exists after the completion of the Arrangement.

### (g) Business Combinations

Business combinations are accounted for using the acquisition method. Under this method, the consideration transferred is allocated to the net assets acquired and the liabilities assumed based on the fair values at the time of the acquisition. In determining the fair value of the assets and liabilities, the Company is oftern required to make assumptions and estimates.

## 4. SUPPLEMENTAL CASH FLOW INFORMATION

| | **Nine months ended September 30, 2015** | Nine months ended September 30, 2014 |
|---|---|---|
| Interest paid | **$ -** | $ 2,135 |
| Income taxes paid | **$ -** | $ - |
| Items that are excluded from the investing and financing activities: | | |
| Issuance of shares for services | **$ 873,022** | $ 40,048 |

## 5. COMMON-CONTROL TRANSACTION

As described in Note 1, on May 21, 2015, MTI shareholders approved the Arrangement whereby MTI transferred certain assets to TMS. In connection with this arrangement, MTI transferred the MTI Assets and associated debt. Since the shareholders of TMS upon the close of the arrangement were the same as the shareholders of MTI immediately prior to the arrangement, this transaction was deemed to be a common control transaction. As such, the Company elected to recognize the assets and liabilties assumed by TMS at the carrying value as follows:

### Carrying amount of MTI Assets acquired

| | May 21, 2015 |
|---|---|
| Cash | $ 6,614,716 |
| Receivable | 78,325 |
| Prepaid | 7,310 |
| Property and equipment | 3,576,619 |
| Accounts payable and accrued liabilities | (25,200) |
| | $ 10,251,770 |

### Consideration

| | May 21, 2015 |
|---|---|
| Issuance of common shares (179,500,076 at a $0.15) | $ 26,925,011 |
| Reserve for common-control transaction | (16,673,241) |
| | $ 10,251,770 |

Common shares issued as a part of the consideration for the common-control transaction with Microcoal were valued at $0.15, per common share which was based on an estimated fair market value of the MTI Assets on the date of issuance. The reserve from the common-control transaction represents the difference between the fair value of the TMS shares issued to existing MTI shareholders and the net book value of the acquired assets and assumed liabilities.

(in Canadian dollars)

## 6. PROPERTY AND EQUIPMENT

| Plant, Equipment and Leasehold Improvements | Plant & Equipment | Leasehold improvements | Total |
|---|---|---|---|
| January 1, 2014 | $ - | $ - | $ - |
| Additions | 642,169 | - | 642,169 |
| December 31, 2014 | 642,169 | - | 642,169 |
| Additions | 3,979,048 | 231,002 | 4,210,050 |
| September 30, 2015 | $ 4,621,217 | $ 231,002 | $ 4,852,219 |
| **Accumulated amortization** | | | |
| January 1, 2014 | - | - | - |
| Amortization | - | - | - |
| December 31, 2014 | - | - | - |
| Amortization | 128,329 | 21,154 | 149,483 |
| September 30, 2015 | 128,329 | 21,154 | 149,483 |
| Net book value, December 31, 2014 | $ 642,169 | $ - | $ 642,169 |
| **Net book value, September 30, 2015** | **$ 4,492,888** | **$ 209,848** | **$ 4,702,736** |

All additions to Equipment and Leasehold Improvements relate to the Company's commercial scale pilot plant, located in King William, Virginia. Amortization of the Equipment and Leasehold Improvements began in July 2015, when regular operational status of the pilot plant was acheived.

## 7. JOINT VENTURE AGREEMENTS

Microcoal entered into a joint venture agreement to research, develop and market its technology in China. On January 22, 2015 the Company closed the Joint Venture Agreement with Rubyfield Holdings Limited ("Ruby", "joint venture party"), an arms length party. As consideration for improvments to office and research space, assets and expense contributions, market development efforts and expenses by Ruby, the Company issued a total of 10,000,000 common shares, at a fair value of $1,540,000 based upon common share market prices to Ruby. A marketing and research office was established in Shanghai, China by Ruby. The Company owns a controlling interest of 51% in the Hong Kong domiciled subsidiary carrying out the joint venture agreement activities. The subsidiary will research, develop and market to the region in preparation for the commercialization of the company's microwave technology, including sourcing and testing coal samples from Asian markets. There has been no activity in the subsidiary nor assets nor liabilities that are including in the condensed consolidated interim financial statements. This joint venture agreement is included in the MTI Assets transfered to TMS on May 21, 2015.

On January 16, 2015, Microcoal entered into a 50/50 Joint Venture Agreement with an affiliate of Cadila Pharmaceuticals Limited, to carry out its marketing and research activities in India. Functions will include establishing a testing/demonstration facility for the purpose of demonstrating the effectiveness of the technology to coal mining or coal based electrical generation industries in India. Marketing promoting and researching markets for the deployment of technology in India. Developing one or more commercial scale facilities in India. The joint venture agreement was entered into concurrently with a $11,857,000 investment by an affiliate of Cadila Pharmaceuticals Limted into Microcoal. This investment represents approximately 44.04% ownership of the issued and outstanding shares of the Company. There has been no activity in the joint venture nor assets nor liabilities that are including in the condensed consolidated interim financial statements. This joint venture agreement is included in the MTI Assets transfered to TMS on May 21, 2015.

(in Canadian dollars)

## 8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

| | | **September 30, 2015** | | December 31, 2014 |
|---|---|---|---|---|
| Trade accounts payable | **$** | **690,000** | $ | 9,740 |
| Other | | **10,861** | | - |
| | **$** | **700,861** | $ | 9,740 |

Trade payables includes the fair value of amounts owing to suppliers and bonus shares authorized but not issued to consultants of the company.

## 9. LOANS PAYABLE

| | | **September 30, 2015** | | December 31, 2014 |
|---|---|---|---|---|
| Pursuant to a loan agreement with a director of MTI and the Company, the director advanced the sum of $139,313 ($125,000 USD) to the Company. On September 29, 2014 a new loan was made available for drawdown of $1,128,490 ($1,000,000 USD) This loan was fully drawn by December 10, 2014. The Loans have a term of 1 year and have an interest rate of 4% payable quarterly. The loans are convertible, at the option of the lender, into common shares at US$0.225 and US$0.15 per share. During the six months ended December 31, 2014, in addition to the amortization of the discount on the convertible debenture in the amount of $77,596, the Company incurred interest expense of $9,740 and unrealized foreign exchange loss of $23,561. During the period ended June 30, 2015, this loan was repaid in full and the associated derivative liability was derecognized in the statement of comprehensive income (loss). | **$** | **-** | $ | 838,861 |
| | **$** | **-** | $ | 838,861 |

## 10. SHARE CAPITAL

**(a)** **Authorized**: unlimited common shares without par value

**(b)** **Issued and Outstanding**

| | Number of Shares | | Amount |
|---|---|---|---|
| Issued in Connection with Plan of Arrangement | 179,500,076 | $ | 26,925,011 |

On May 21, 2015 the Company and MicroCoal completed a Plan of Arrangement pursuant to the British Columbia Business Corporations Act. Under terms of the Arrangement, every Microcoal shareholder received one share in the Company for every share held in MicroCoal at the effective date.

(in Canadian dollars)

## 10. SHARE CAPITAL continued

### c) Net investment in Transferred Assets of Microcoal Technologies Inc.

The Condensed Consolidated Interim Financial Statements present historic financial position, results of operations and cash flows of the Transferred Assets for the prior comparative period , on a carve out basis as if they had operated as a stand-alone entity subject to Microcoal's control and funded with capital from Microcoal and third party loans. Preparation of the comparative Carve out financial statements requires the use of significant judgements by management in the allocation of reported amounts of Microcoal to the carve out assets, liabilities and expenses. No comparative figures for have been provided for Long Term Incentive Program (LTIP) components as it is assumed the Transferred Assets stand alone business did not employ a separate LTIP program.

### d) Warrants

On May 21, 2015, pursuant to the Plan of Arrangement (described in Note 2) every Microcoal warrant holder at the effective date of the Arrangement received one warrant in the Company for every warrant held in Microcoal.

The following table summarizes warrants outstanding and exercisable at September 30, 2015:

| Warrants Outstanding | Warrants Exercisable | Exercise Price | Expiry Date |
|---|---|---|---|
| 325,000 | 325,000 | $0.30 USD | January 31, 2016 ( formerly July 4, 2015) |
| 175,000 | 175,000 | $0.30 USD | January 31, 2016 ( formerly July 14, 2015) |
| 2,700,000 | 2,700,000 | $0.30 USD | January 31, 2016 (formerly August 14, 2015) |
| 3,736,250 | 3,736,250 | $0.26 | October 19, 2015 |
| 11,381,818 | 11,381,818 | $0.20 | January 31, 2016 |
| 100,000 | 100,000 | $0.26 | May 24, 2016 |
| 726,910 | 726,910 | $0.26 | May 31, 2016 |
| 1,037,818 | 1,037,818 | $0.35 | May 31, 2016 |
| 1,011,741 | 1,011,741 | $0.30 USD | November 26, 2016 |
| 6,340,000 | 6,340,000 | $0.26 | December 28, 2016 |
| 2,785,799 | 2,785,799 | $0.45 | October 21, 2018 |
| 30,320,336 | 30,320,336 | | |

On June 9, 2015 the Company announced revised pricing and expiry dates, $0.20 exercise price and January 31, 2016 expiry, of the TMS warrants to be issued pursuant to its Plan of Arrangement. In accordance with the terms of the plan of arrangement, the TMS warrants are being exchanged for outstanding MTI warrants as at the effective time of the plan of arrangement on a one-for-one basis. The warrant holders retain the option of maintaining the original terms of the warrants, when exchanging for TMS warrants. Management expects 5,272,750 warrants originally set to expire on June 30, 2015 to be converted revised pricing offered on June 9, 2015 and these terms have been used in preparing the financial statements.

(in Canadian dollars)

## 10. SHARE CAPITAL continued

### e) Long Term Performance Incentive Plan (LTIP)

On May 22, 2015, the Company adopted a long term performance incentive plan (LTIP) for granting incentives to directors, employees and consultants, under which the total outstanding incentives are fixed and limited to 20% of the issued and outstanding common shares of the Company. LTIP incentive awards may take the form of Restricted Share Units, Performance Share Units, Deferred Share Units and Stock Options.

### (i) Stock options

On May 22, 2015, the Company granted 15,525,000 stock options. The exercise price of the options is $0.15 per common share based on market prices of the underlying stock, with a 5 year expiry term. The fair value of options granted was determined using the Black Scholes option model using the following assumptions:

| | September 30, 2015 |
|---|---|
| Risk free rate | **0.98%** |
| Expected dividend yield | **nil%** |
| Stock price volatility, based on historical volatility | **138%** |
| Expected life - years | **5** |

Stock options outstanding are as follows:

| | Number of options | Weighted Average Exercise Price |
|---|---|---|
| Outstanding, May 22, 2015 | - | $ - |
| Granted | 15,525,000 | 0.15 |
| Exercised | - | - |
| Expired | - | - |
| Outstanding, September 30, 2015 | 15,525,000 | 0.15 |

### (ii) Restricted share units

On May 22, 2015, the Company granted 4,000,000 Restricted Share Units.("RSUs") The RSU's vest at 50% at 12 months from the date of grant and 50% at 18 months from date of grant. Based upon the market value of the underlying stock, the RSUs fair value of $0.15 per RSU. For the three and nine months ended September 30, 2015, a total of $125,000 and $166,667 were recorded as share-based compensation associated with the vesting of these RSUs. There were 4,000,000 oustanding at September 30, 2015.

(in Canadian dollars)

## 10. SHARE CAPITAL continued

### (iii) Performance share units

On May 22, 2015, the Company granted 2,500,000 Performance Share Units.("PSUs") The PSU's vest during a 18 month performance period following the date of grant, determined based on the increase, if any, in the market price of the Company's common shares, as set forth in the following table.

| Performance Level | Highest Share Price Attained During Performance Period* | Payout (% of Target) | Awards Earned |
|---|---|---|---|
| Target | ≥$0.2625 (i.e. ≥75% increase) | 100% | 2,500,000 |
| Median | $0.225 (i.e. 50% increase) | 66.67% | 1,666,667 |
| At / Below Price on Grant Date | ≤$0.15 | 33% | 833,334 |

### f) Nature and purpose of reserves

The reserves recorded in equity on the Company's condensed consolidated statements of financial position include 'Share-based payment reserve', 'Cumulative Common Control Transaction Reserve, Restricted Share Unit Reserve, Other Comprehensive Income', and 'Deficit'. 'Share-based payment reserve' is used to recognize the value of stock option grants and share purchase warrants prior to exercise. 'Cumulative Other Comprehensive Income' includes the cumulative translation reserve which records exchange gains and losses on translating foreign operations into the Company's Canadian dollar reporting currency. Common Control Transaction Reserve is used record the difference between the fair value of TMS shares issued to existing MTI shareholders and the net book value of the acquired assets and assumed liabilities. Restricted Share Unit Reserve is used to record the capital fair value of the RSU recognized in the reporting period. 'Deficit' is used to record the Company's change in deficit from earnings from year to year.

### g) Share-based payment reserve

| | September 30, 2015 | December 31, 2014 |
|---|---|---|
| Balance, beginning of period | $ - | $ - |
| Fair value of stock options issued | $ 693,635 | |
| Fair value of bonus shares issued | - | 40,048 |
| Balance, end of period | $ 693,635 | $ 40,048 |

On May 22, 2015, the Company granted 4,600,000 bonus shares to certain employees, officers and consultants of the Company. The fair value, based upon market , was $0.15 per common share or $ 690,000. The shares have not yet been issued and are recorded in Accounts Payable. On May 22, 2015, the Company granted 14,925,000 stock options with a term of 5 years, vesting quarterly over 1 - 2 years at a strike price of $0.15.

### h) Derivative liability

Under IFRS accounting, the prescribed treatment for warrants issued as part of an equity financing, with an exercise price denominated in a foreign currency is to treat these warrants as a liablity measured at fair value with subsequent changes in fair value accounted for through profit or loss. The fair value of these warrants is determined using the Black Scholes option pricing model. All Canadian dollar priced warrants meet this liabilty classification requirement and thus the value of these warrants are presented as a liability on the consolidated statement of financial position. As these warrants are exercised, the fair value of the recorded warrrant liability on date of exercise is included in share capital along with the proceeds from the excercise. If these warrants expire, the related decrease in warrant liability is recognized in profit or loss, as part of the change in fair value of warrant liability. There is no cash flow impact as a result of this accounting treatment.

(in Canadian dollars)

## 10. SHARE CAPITAL continued

| | September 30, 2015 | December 31, 2014 |
|---|---|---|
| Balance, beginning of period | $ - | $ - |
| May 22, 2015 warrant issuance, at effective date pursuant to Plan of arrangement | 1,746,339 | - |
| Convertible loan - 1st tranche, at inception | - | 53,805 |
| Convertible loan - 2nd tranche, at inception | - | 476,294 |
| Fair value increase (decrease) in liability at end of period | (479,715) | - |
| Balance, end of period | $ 1,266,624 | $ 530,099 |

The fair value of the derivative liability were calculated at inception as well at reporting period using the Black-Scholes option pricing model using the following range of assumptions:

| | September 30, 2015 |
|---|---|
| Risk free rate | 0.50% |
| Expected dividend yield | nil% |
| Stock price volatility | 47% - 155% |
| Expected life of derivatives - years | 0.05 to 4.64 |

## 11. RELATED PARTIES

Key management personnel include those persons having authority and responsibility for planning, directing and controlling the activities of the Company as a whole. The Company has determined that key management personnel consist of Chief Executive Officer and the Chief Financial Officer. The company incurred the following transactions with key management personnel:

| | Nine months ended September 30, 2015 | Nine months ended September 30, 2014 |
|---|---|---|
| Management, directors' and professional fees | $ 393,504 | $ 88,290 |
| Share based compensation | 640,021 | 40,048 |
| **Total key management personnel remuneration** | $ 1,033,525 | $ 128,338 |

## 12. SEGMENTED INFORMATION

The Company currently operates in one industry segment, being its microwave technology and in the geographic areas as follows.

| Equipment and Leasehold Improvement | September 30, 2015 | December 31, 2014 |
|---|---|---|
| Canada | $ - | $ - |
| USA | 4,702,736 | 642,169 |
| | $ 4,702,736 | $ 642,169 |

## 13. CAPITAL DISCLOSURES

The Company manages its capital structure and makes adjustments based on the funds available in order to support continued operation and future business opportunities. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business. The Company considers its capital to be share capital. The capital management objectives remain the same as for the previous fiscal period.

The Company's operations are currently not generating positive cash flow; as such, the Company is dependent on external financing to fund its activities. In order to carry out research and development, and pay for administrative costs, the Company will spend its existing working capital, and raise additional amounts as needed. Companies in this stage typically rely upon equity and debt financing or joint venture partnerships to fund its operations. There is no certainty with respect to the Company's ability to raise capital.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

The Company is not exposed to external requirements by regulatory agencies regarding its capital.

## 14. FINANCIAL INSTRUMENTS AND RISKS

As at September 30, 2015, the Company's financial instruments consist of cash, receivables, accounts payable and accrued liabilities. The carrying values of these financial instruments approximate their fair values because of their current nature.

All financial assets and financial liabilities are recorded at fair value on initial recognition. Transaction costs are expensed when they are incurred, unless they are directly attributable to the acquisition of qualifying assets, in which case they are added to the costs of those assets until such time as the assets are substantially ready for their intended use or sale.

| | |
|---|---|
| Level 1 | Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities; |
| Level 2 | Quoted prices in markets that are not active, or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability; |
| Level 3 | Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (supported by little or no market activity); |

Under fair value accounting, assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. As of June 30, 2015, the Company had derivative liabilities that were required to be recorded at fair value using level 2 inputs.

### Market Risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, investment fluctuations, and commodity and equity prices. Market conditions will cause fluctuations in the fair values of financial assets classified as held-for-trading and available-for-sale and cause fluctuations in the fair value of future cash flows for assets or liabilities classified as held-to-maturity, loans or receivables and other financial liabilities. The Company is not exposed to significant market risk. The Company is not exposed to significant interest rate risk as the Company has no variable interest debt. The Company's ability to raise capital to fund activities is subject to risks associated with fluctuations in the market. Management closely monitors individual equity movements and the stock market to determine the appropriate course of action to be taken by the Company.

### Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its obligations as they become due. The Company's ability to continue as a going concern is dependent on management's ability to raise the funds required through future equity financings, asset sales or sales from contracts, or a combination thereof. The Company has no regular cash flow from its operating activities. The Company manages its liquidity risk by forecasting cash flow requirements for its planned research and development, and corporate activities and anticipating investing and financing activities. Management and the Board of Directors are actively involved in the review, planning and approval of annual budgets and significant expenditures and commitments. Failure to realize additional funding, as required, could result in the delay or indefinite postponement of further development of the Company's projects.

(in Canadian dollars)

### Interest Rate Risk

The Company is not exposed to significant interest rate risk due to the short-term maturity of its monetary assets and liabilities and amounts owing being non-interest bearing or bearing fixed rates of interest.

### Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company is mainly exposed to credit risk from credit sales and cash with major financial institutions. It is the Company's policy, implemented locally, to assess the credit risk of new customers before entering contracts. Such credit ratings are taken into account by local business practices.

### Currency Risk

The Company is exposed to foreign currency risk on fluctuations related to cash, receivables and accounts payable and accrued liabilities that are denominated in the United States dollar (USD). Management does not hedge its exposure to foreign exchange risk and does not believe the Company's net exposure to foreign currency risk is significant at the current time. Management will continue to review future planned expenditures and currency risk.

The following table provides an indication of the Company's significant foreign exchange currency exposure:

| | **United States September 30, 2015** | United States December 31, 2014 |
|---|---|---|
| Cash | **$ 4,288,811** | $ 29,764 |
| Accounts payable and accrued liabilities | | (9,740) |
| Loans Payable | | 838,861 |
| | **$ 4,288,811** | $ 858,885 |

The following exchange rates were applied:

| | Nine months Ended Sept 30, 2015 | | Year Ended December 31, 2014 | |
|---|---|---|---|---|
| | Average rate | Spot rate | Average rate | Spot rate |
| Canadian dollars to US dollars | 0.7937 | 0.7493 | 0.8990 | 0.8007 |

## 15. CONTINGENCIES AND CONSTRUCTIVE OBLIGATIONS

The Company signed a two year sublease with a 1 year automatic renewal for premises in Virginia. The annual rent is the issuance of 80,000 stock options with an exercise price of $0.20 expiring in 5 years, or the monetary equivalent, due in advance, with the first payment due within 30 days following the effective date of the sublease of August 28, 2014 ). The lease agreement also includes an option to purchase the premise at the sole discretion of the landlord at a price that is not to exceed $375,000USD, or an equivalent amount of stock options of the Company, where the option price is equal to a six month average price prior to exercising the option to purchase. On issuance, the stock options shall expire in 3 years. Pursuant to the Plan of Arrangment the 80,000 3 year $0.20 stock options were cancelled and replaced with 100,000 5 year $0.15 stock options.

In August 2015, a wholly-owned subsidiary of the Company, entered into an approximate 10-year lease with Saul Holdings Limited Partnership in respect of a 7,500 square-foot building located in the Avenel Business Park, Gaithersburg, Maryland. The space is intended to be used in connection with the Company's research and development activities. Annual rent under the lease is approximately US$90,000, subject to a 3% escalation per year, following a six-month rent-free period. TMS-MD, Inc. will also be responsible for certain operating, maintenance and repair costs in respect of the building, which have been initially estimated at approximately US$42,000 per year. The company will take possesion of the leased space later this year, following office improvements to be paid by the landlord.