TARGETED MICROWAVE SOLUTIONS INC.

Consolidated Financial Statements
(Audited)

Period ended December 31, 2015

(in U.S. dollars)

Tel: 604 688 5421
Fax: 604 688 5132
www.bdo.ca

BDO Canada LLP
600 Cathedral Place
925 West Georgia Street
Vancouver BC V6C 3L2 Canada

Independent Auditor's Report

To the shareholders of Targeted Microwave Solutions Inc.

We have audited the accompanying financial statements of Targeted Microwave Solutions Inc., which comprise the consolidated statement of financial position as at December 31, 2015 and the consolidated statements of comprehensive loss, cash flows and changes in equity for the period then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the presentation of the financial statements.

We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements present fairly, in all material respects, the financial position of Targeted Microwave Solutions Inc. as at December 31, 2015 and its financial performance and its cash flows for the period then ended, in accordance with International Financial Reporting Standards.

(signed) "BDO CANADA LLP"

Chartered Professional Accountants

Vancouver, British Columbia
April 8, 2016

BDO Canada LLP, a Canadian limited liability partnership, is a member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms.

Targeted Microwave Solutions Inc.

Consolidated Statement of Financial Position

(in U.S. dollars)
(Audited)

	Notes	At December 31, 2015
ASSETS		
Current		
Cash		$ 2,149,070
Receivables		106,394
Prepaid expenses		8,894
		2,264,358
Property and equipment	7	3,718,749
Deposit		15,048
Total assets		$ 5,998,155
LIABILITIES		
Current		
Accounts payable and accrued liabilities	11, 14	$ 251,680
Derivative liability	9	452,652
Deferred rent	16	8,338
		712,670
SHAREHOLDERS' EQUITY		
Share capital	10(b)	6,980,547
Share-based payment reserve		1,603,005
Deficit		(3,298,067)
		5,285,485
Total liabilities and shareholders' equity		$ 5,998,155

Commitments (note 16)
Subsequent events (note 17)

Approved on behalf of the Board:

"Dr. James Young"
Director

"Dr. Stephen D. Crocker"
Director

Targeted Microwave Solutions Inc.

Consolidated Statement of Changes in Shareholders' Equity for the period from the date of incorporation, April 10, 2015 to December 31, 2015

(in U.S. dollars)

	Notes	Shares	Amount	Share-based payment reserves	Deficit	Total
Balance - April 10, 2015		-	$ -	$ -	$ -	$ -
May 21, 2015 Effective Date - Plan of Arrangement	5, 10(b)	35,900,010	8,366,409	-	-	8,366,409
Reclassification of warrants denominated in foreign currency to derivative liability	9	-	(1,951,065)	-	-	(1,951,065)
Bonus shares issued	10(b)	920,000	565,203	-	-	565,203
Restricted share units issued and vested	10(d)(ii)	-	-	238,914	-	238,914
Share-based compensation	10(d)(i)(iii)	-	-	1,364,091	-	1,364,091
Loss for the period		-	-	-	(3,298,067)	(3,298,067)
Balance, December 31, 2015		36,820,010	$ 6,980,547	$ 1,603,005	$ (3,298,067)	$ 5,285,485

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

Targeted Microwave Solutions Inc.

Consolidated Statement of Comprehensive Loss for the period from the date of incorpora

April 10, 2015 to December 31, 2015

(in U.S. dollars)

(Audited)

	Note	Period ended December 31, 2015
Expenses		
Site supplies, services and other		$ 117,717
Plant and equipment depreciation		242,933
Consulting, management and director fees	11	1,250,871
Foreign exchange loss		41,361
Office, rent and other		231,226
Professional fees		504,058
Share-based compensation	10(b)(d), 11	2,168,208
Travel and promotion		265,299
Loss before other items		4,821,673
Other (income) expenses		
Interest income		(25,193)
Fair value change in derivative liability	9	(1,498,413)
		(1,523,606)
Net and comprehensive loss		$ 3,298,067
Earnings (loss) per share, basic and diluted		$ (0.09)
Weighted average number of common shares outstanding - basic and diluted		36,635,194

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

Targeted Microwave Solutions Inc.

Consolidated Statement of Cash Flows for the period from the date of incorporation, April 10, 2015 to December 31, 2015

(In U.S. Dollars)

(Audited)

	Note	Period ended December 31, 2015
Cash provided by (used in):		
Operating Activities		
Net loss for the period		**$ (3,298,067)**
Items not involving cash:		
Share-based compensation	10(d)	**2,168,208**
Depreciation	7	**242,933**
Fair value change in derivative liability	9	**(1,498,413)**
		(2,385,339)
Change in non-cash working capital:		
Receivables		**(42,235)**
Prepaid expenses		**(2,906)**
Accounts payable and accrued liabilities		**251,680**
Deposit		**(15,048)**
Deferred rent		**8,338**
		(2,185,510)
Investing Activities		
Purchase of property and equipment	7	**(1,049,601)**
Transfer of cash on Plan of Arrangement	5	**5,384,181**
		4,334,580
Increase in cash		**2,149,070**
Cash, beginning of period		**-**
Cash, end of period		**$ 2,149,070**
Supplemental cash flow information:	6	

1. NATURE OF OPERATIONS

Targeted Microwave Solutions Inc. is the ultimate parent company of its consolidated group, ("TMS" or "the Company"). TMS was incorporated on April 10, 2015 under the British Columbia Business Corporation Act and is domiciled in Canada. On May 21, 2015, the Company and MicroCoal Technologies Inc. ("MicroCoal" or "MTI") completed a Plan of Arrangement (the "Plan of Arrangement" or "Arrangement") pursuant to the British Columbia Business Corporations Act. Under the terms of the Arrangement, every MicroCoal shareholder received one share in the Company for every share held in MicroCoal at the effective date. See Note 5 for more discussion on the Plan of Arrangement.

The Company is an Industrial Clean Technology company in the business of developing patented microwave based application technologies to dry, decontaminate, physically upgrade and fully eliminate or reduce the environment harming emissions. The technology has specific application to mass-scale use of industrial aggregates, energy producing biomass and low-rank coals. and other materials 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 test advances in research and development of its microwave based technology. The Company also opened the research and development offices in Gaithersburg, Maryland.

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'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. BASIS OF PREPARATION

(a) Statement of Compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

These consolidated financial statements were reviewed by the Audit Committee and approved and authorized for issue by the Board of Directors on April 6, 2016.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of measurement

These consolidated financial statements have been prepared on a historical cost basis since inception, except for those assets and liabilities that are measured at fair value at the end of each reporting period. Additionally, these consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information. These consolidated financial statements have been prepared on the basis that the Company will continue as a going concern, which contemplates the realization of assets and satisfaction of liabilities in the normal course of business.

(b) Change in presentation currency

These consolidated financial statements are presented in United States dollars (“US dollars”), the Company’s presentation currency. References to US$ are to US dollars. The functional currency of the Company and all its subsidiaries are US dollars. At December 31, 2015, the Company changed its presentation currency from Canadian dollars (“C$”) to the US dollar. The change in presentation currency is to better reflect the Company’s business activities, to better reflect future financing requirements and to improve investors’ ability to compare the Company’s results with other publicly traded businesses. In making this change to the US dollar presentation currency, the Company followed the guidance in IAS 21, *The Effects of Changes in Foreign Exchange Rates* , and has applied the change retrospectively as if the new presentation currency had always been the Company’s presentation currency. In accordance with IAS 21, the financial statements presented have been translated to the new US dollar presentation currency.

(c) Basis of Consolidation

These consolidated financial statements include the accounts of the Company and the following subsidiaries. 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. All intercompany transactions and balances have been eliminated. Targeted Microwave Solutions Hong Kong Limited is currently inactive.

	Country of incorporation	Ownership - Dec 31, 2015	Functional Currency
Targeted Microwave Solutions (USA) Inc. ("TMS USA")	USA	100%	US Dollars
TMS-MD, Inc. ("TMS-MD")	USA	100%	US Dollars
Targeted Microwave Solutions Hong Kong Limited ("TMS HK")	Hong Kong	51%	US Dollars

TMS USA and TMS HK were transferred from MicroCoal as part of the Plan of Arrangement. TMS-MD was incorporated in July 2015.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Functional Currency Translation

The functional currency of the parent entity and its subsidiaries is the US dollar. The presentation currency of the consolidated financial statements is the US dollar. Accordingly, in preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency ("foreign currencies") are initially translated at the spot rate at the date of transaction. At the end of each reporting period, foreign currency balances are translated as follows: (i) monetary assets and liabilities denominated in foreign currencies are translated using the exchange rates prevailing at the balance sheet date; (ii) non-monetary assets denominated in foreign currencies that are measured at other than fair value are translating using the rates of exchange at the transaction dates; (iii) non-monetary assets denominated in foreign currencies that are measured at fair value are translated using the rates of exchange at the dates those fair values are determined; and (iv) income statement items are translated using the average monthly exchange rates. Exchange gains and losses are recognized on a net basis in earnings or loss from operations for the period.

(e) Property and equipment

Property and equipment are recorded at cost less accumulated amortization and impairment losses. Historical cost includes expenditures that are directly related to the acquisition of the items. Subsequent costs are included in the asset's carrying value, or recognized as a separate asset, as appropriate. The carrying value of any replaced asset is derecognized. Repairs and maintenance are charged to the income statement in the period in which they are incurred.

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. The significant classes of depreciable property and equipment are recorded using the following rates and methods. This property and equipment relates to the pilot plant in King William, Virginia and also the research and development office in Gaithersburg, Maryland.

Assets	Rate	Basis
Plant and equipment	3 - 10 years	Straight-line basis
Leasehold improvements	Term of lease	Straight-line basis

(f) Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment or at any time if an indicator of impairment is considered to exist. Assets that are subject to amortization or depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount, which is the higher of value in use and fair value less costs to sell, the asset is written down accordingly.

Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the asset's cash-generating unit, which is the lowest group of assets in which the asset belongs for which there are separately identifiable cash inflows that are largely independent of the cash inflows from other assets. The Company has one cash-generating unit for which impairment testing is performed.

An impairment loss is charged to income or loss, except to the extent they reverse gains previously recognized in accumulated other comprehensive income (loss).

(g) 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Financial Instruments

Financial assets are classified into one of the following categories based on the purpose for which the asset was acquired. All transactions related to financial instruments are recorded on a trade date basis. The Company's accounting policy for each category is as follows:

Loans and receivables are financial assets with fixed or determinable payments that are not quoted on an active market. Such assets are initially recognized at fair value plus any direct attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses. Cash and trade receivables are classified as loans and receivables.

Other financial liabilities are initially measured at fair value, net of transaction costs, and are subsequently measured at amortized cost using the effective interest method. Liabilities in this category include accounts and other payables. The Company's financial liabilities include accounts payable and accrued liabilities and deferred rent.

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 reported as gains or losses in net income (loss). For warrant-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.

(i) Share Capital

The Company's common shares, share warrants, share options, restricted share units and performance share units are classified as equity instruments to the extent they do not meet the definition of a financial liability. 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.

(j) Share-based payments

The fair value of the estimated number of stock options and restricted share units (“RSUs”) awarded to employees, officers and directors that will eventually vest, determined as of the date of grant, is recognized as share-based compensation expense over the vesting period of the stock options and RSUs, with a corresponding increase to equity. The fair value of the stock options is determined using the Black-Scholes option pricing model with market related inputs as of the date of grant. The fair value of RSUs is the market value of the underlying shares as of the date of grant. 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.

Finder’s warrants are considered to be equity and as such they are initially fair valued at the date of issuance and not re-measured at each reporting period. The original fair value assigned to the warrant is transferred to share capital on exercise.

Share-based payments to non-employees are measured at the fair value of the goods or services received. If it is determined that the fair value of the goods or services cannot be reliably measured, the fair value of the equity instruments issued are recorded at the date the goods or services are received.

Performance share units (“PSUs”) represent the right to receive the cash equivalent of a common share or, at the Company’s option, a common shares. The fair value of the estimated number of PSUs awarded that will eventually vest, determined as of the grant date, is recognized as share-based compensation expense, with a corresponding amount recorded as share-based payment reserve as the Company intends to issue common shares from treasury and not cash. The fair value of the PSUs at grant date were estimated using the market price of the common shares at grant date and the Monte-Carlo model to determine the number of PSUs which were expected to vest.

(k) Basic and diluted earnings or loss per share

Basic earning or loss per share represents the earnings or loss attributable to common shareholders for the year, divided by the weighted average number of common shares outstanding during the year. Diluted loss per share represents the earning or loss for the year, divided by the weighted average number of common shares outstanding during the year plus the weighted average number of dilutive shares resulting from the exercise of stock options, warrants and other similar instruments where the inclusion of these would not be anti-dilutive.

(l) Application of new or revised accounting standards

In December 2013, the IASB issued the Annual Improvements 2010-2012 and 2011-2013 cycles, effective for annual periods beginning on or after July 1, 2014. These Annual Improvements made necessary but non-urgent amendments to existing IFRSs.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Changes in accounting standards not yet effective

IFRS 9 *Financial Instruments* is part of the IASB's wider project to replace IAS 39 - Financial Instruments: Recognition and Measurement. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The standard is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. IFRS 7 was also amended and is effective at the same time as IFRS 9 to require additional disclosures on transition from IAS 39 to IFRS 9.

In September 2014, the IASB issued Annual Improvements 2012-2014 cycle, effective for annual periods beginning on or after January 1, 2016. These Annual Improvements made necessary but non-urgent amendments to existing IFRSs. These amendments are not expected to have a significant impact on the Company's consolidated financial statements.

In May 2014, the IASB issued IFRS 15 – *Revenue from Contracts with Customers* ("IFRS 15"). The standard is effective for annual periods and first interim periods beginning on or after January 1, 2018, with early adoption permitted. The Company will assess the impact of the standard when it starts to generate revenues from operations.

In January 2016, the IASB issued IFRS 16 – *Leases, which requires lessees to recognize assets and liabilities for most leases. Application of the standard is mandatory for annual reporting periods beginning on or after January 1, 2019, with earlier* application permitted, provided the new revenue standard, IFRS 15, has been applied or is applied at the same date as IFRS 16. The Company will assess the impact of the standard and the application date on the consolidated financial statements.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of the consolidated financial statements requires that the Company's management makes assumptions and estimates of effects of uncertain future events on carrying amounts of the Company's assets and liabilities at the end of the reporting period. Actual future outcomes could differ from present estimates and assumptions, potentially having material future effects on the Company's consolidated financial statements. Estimates are reviewed on an ongoing basis and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to estimates and the resulting effects on the carrying amounts of the Company's assets and liabilities are accounted for prospectively. The Company is also required to make critical judgements in applying certain of the Company's accounting policies.

The significant assumptions about the future or other major sources of estimation uncertainty or application of judgement in applying the Company's accounting policies at the end of the reporting period that have a significant risk of resulting in a material adjustment to the carrying amounts of the Company's assets and liabilities are as follows:

(a) Application of accounting for the Plan of Arrangement

Determination of whether a set of assets acquired and liabilities assumed constitute the acquisition of a business or asset requires the Company to make certain judgements as to whether the assets acquired and liabilities assumed constitute a business as defined in IFRS 3 - *Business Combinations* ("IFRS 3"). The Plan of Arrangement was considered a common-control transaction and the Company concluded that book value accounting was appropriate. See Note 5.

(b) Plant, 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. Prior to the plant being capable of operating at levels intended by management, costs incurred are capitalized and not depreciated until this milestone is met. 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. At December 31, 2015, the carrying amounts of the Company's property and equipment was $3,718,749 (note 7).

(c) Functional currency

The functional currency of each of the Company's subsidiaries, is the currency of the primary economic environment in which the entity operations. The Company has determined the functional currency of each entity within the group to be the US dollar. Determination of functional currency may involve certain judgements to determine the primary economic environment and the Company reconsiders the functional currency of its entities if there is a change in events and conditions.

(d) Determination of the fair value of share-based compensation

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. In addition, the option pricing models used require management to make various estimates and assumptions in relation to the expected life of the awards, volatility and forfeiture rates. As TMS did not have sufficient trading history to derive an entity specific volatility TMS used the historic volatility of a comparable entity.

5. PLAN OF ARRANGEMENT AND COMMON-CONTROL TRANSACTION

Pursuant to an agreement dated April 13, 2015 and amended May 11, 2015, on May 21, 2015, MTI shareholders approved the Arrangement whereby MTI transferred certain assets of MTI to TMS in exchange for TMS common shares. On the closing of the Arrangement every MicroCoal shareholder received one share of TMS for each share held in MicroCoal at the effective date of the Arrangement. In addition, every MicroCoal warrant holder was able to exchange each MicroCoal warrant held for one TMS warrant. Each new TMS warrant contained the same exercise price and terms as each MicroCoal warrant; however, pursuant to the Arrangement certain of the new TMS warrants were amended to a new exercise price and expiry date (see Note 10(c)).

Common-control transaction

The Plan of Arrangement transaction was deemed a common-control transaction. IFRS does not specify an accounting approach on these transactions and therefore an accounting policy choice is required and is to be applied consistently to all common-control transactions. An entity has the choice to select between applying a) the acquisition method as set out in IFRS 3, or b) book value accounting. The Company elected to recognize the assets and liabilities assumed by TMS at the book value of the MTI assets.

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, contracts, tangibles, intellectual property, property, leasehold improvements, equipment, and share capital of 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 securities, obligations and trademarks not directly applicable to the technology business were not transferred.

Carrying amount of MTI Assets acquired (Transferred Assets)

	May 21, 2015
Cash	$ 5,384,181
Receivable from MTI	64,159
Prepaid	5,988
Property and equipment	2,912,081
	$ 8,366,409

6. SUPPLEMENTAL CASH FLOW INFORMATION

Period ended December 31,	2015
Interest paid	$ -
Income taxes paid	$ -
Items that are excluded from the investing and financing activities:	
Issuance of bonus shares	$ 565,203
Non-cash assets transferred on Plan of Arrangement	$ 2,982,228

7. PROPERTY AND EQUIPMENT

Cost	Plant & Equipment	Leasehold Improvements	Total
Balance at April 10, 2015	$ -	$ -	$ -
Transfer from Plan of Arrangement (note 5)	2,912,081	-	2,912,081
Additions for period	866,266	183,335	1,049,601
Balance at December 31, 2015	$ 3,778,347	$ 183,335	$ 3,961,682
Accumulated amortization			
Balance at April 10, 2015	$ -	$ -	$ -
Depreciation for the period	200,625	42,308	242,933
Balance at December 31, 2015	$ 200,625	$ 42,308	$ 242,933
Net book value, December 31, 2015	**$ 3,577,722**	**$ 141,027**	**$ 3,718,749**

On May 21, 2015, the plant and equipment associated with the Company's commercial scale pilot plant, located in King William, Virginia were transferred from MicroCoal (Note 5). No depreciation was taken on these transferred assets as they were not ready for their intended use. Depreciation began in July 2015 when the pilot plant was commissioning was completed and R&D work using the plant was initiated.

8. JOINT VENTURE AGREEMENTS

In January 2015, MicroCoal entered into and closed a joint venture agreement with Rubyfield Holdings Limited, an arms length party, ("Ruby", "joint venture party") to research, develop and market its technology in China. As consideration for improvements to office and research space, assets and expense contributions, market development efforts and expenses by Ruby, MicroCoal issued a total of 2,000,000 (pre-consolidation 10,000,000) common shares at a fair value of $1,440,000. The joint venture agreement was transferred to TMS on May 21, 2015. The Company owns a controlling interest of 51% in the Hong Kong domiciled joint venture. The joint venture 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. A marketing and research office was established in Shanghai, China by the Company's joint venture partner. There has been no activity in the joint venture nor assets nor liabilities that are included in the consolidated financial statements for the period ended December 31, 2015.

In January, 2015, MicroCoal entered into a 50/50 Joint Venture Agreement with an affiliate of Cadila Pharmaceuticals Limited ("Cadila"), 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, and marketing promoting and researching markets for the deployment of technology in India. The Company intends to develop one or more commercial scale facilities in India. The joint venture agreement was entered into concurrently with a $10,000,000 investment made by an affiliate of Cadila to MicroCoal. Pursuant to the Plan of Arrangement, the joint venture agreement was transferred and the investment represents approximately 44.04% ownership of the issued and outstanding shares of the TMS at that date. There has been no activity in the joint venture nor assets nor liabilities that are included in the consolidated financial statements for the period ended December 31, 2015.

9. DERIVATIVE FINANCIAL LIABILITIES

As described under the caption Warrants in note 10, the Company had warrants issued and outstanding at May 21, 2015 associated with the Plan of Arrangement. As the functional currency of the Company is the US Dollar, all Canadian dollar price warrants met the criteria of a derivative liability instrument because they were exercisable in a currency other than the functional currency of the Company and thereby did not meet the “fixed-for-fixed” criteria for equity instrument classification. As a result, the Company accounted for these warrants as derivative liability instruments on exchange from MTI and recorded the instruments at fair value with mark-to-market adjustments at each reporting period recorded in the Consolidated Statement of Comprehensive Loss. The fair value of these warrants is determined using the Black-Scholes option pricing model.

The following table summarizes the changes in the derivative liability for the period ended December 31, 2015.

Balance, beginning of period	$	-
May 21, 2015 warrant issuance, at effective date pursuant to Plan of arrangement		1,951,065
Fair value increase (decrease) in liability at end of period		(1,498,413)
Balance, December 31, 2015	$	452,652

The fair value of the derivative liabilities were calculated using the Black-Scholes option pricing model using the following weighted average assumptions:

	May 21, 2015	December 31, 2015
Expected life	1.04 years	0.38 years
Expected volatility	169.7%	129.6%
Expected dividend yield	0%	0%
Estimated forfeiture rate	0%	0%
Risk-free interest rate	0.47%	0.45%
Weighted average share price (C$)	$0.75	$0.79

10. SHARE CAPITAL

(a) Authorized: unlimited common shares without par value

(b) Issued and Outstanding

On May 21, 2015, under the terms of the Arrangement, every MicroCoal shareholder received one share in TMS for every share held in MicroCoal at the effective date of the Arrangement. The total number of shares issued in connection with the Plan of Arrangement was 179,500,076 pre-consolidation shares.

Share Consolidation

On December 24, 2015, the Company consolidated its issued and outstanding common shares on a 5:1 basis (the "Share Consolidation"). This Share Consolidation resulted in the pre-consolidation issued and outstanding total shares of 184,100,076 being consolidated on a 5:1 basis. After effecting all transactions, there were 36,820,010 issued and outstanding common shares which became the new share capital of the Company. Fractional shares were not issued. Pre-consolidation there were 32,913,886 (post-consolidation 6,582,776) warrants issued and outstanding. Pre-consolidation there were 16,225,000 (post-consolidation 3,245,000) stock options. Certain comparative information regarding issued and outstanding common shares, warrants, stock options and weighted average number of share amounts have been re-presented on a post-consolidation basis.

Period ended December 31, 2015

During August 2015, the Company issued bonus shares pursuant to a bonus share agreement with certain key executives of MicroCoal who become management in TMS. The Company issued 920,000 (pre-consolidation 4,600,000) common shares to investors at C$0.75 (pre-consolidation C$0.15) per share. As these were bonus shares there were no proceeds and the total value of $565,203 (C$690,000) was recorded in the share capital and share-based compensation expense in the Consolidated Statement of Changes in Shareholder's Equity and the Consolidated Statement of Comprehensive Loss for the period ended December 31, 2015.

c) Warrants

Period ended December 31, 2015

Under the Arrangement, every MTI warrant holder exchanged MTI warrants held for one warrant in TMS under the same terms and conditions. There were no warrants issued by the Company subsequent to May 21, 2015. On June 9, 2015, the Company announced revised pricing and expiry dates for several of the MTI warrants at a C$1.00 (pre-consolidation C$0.20) exercise price and January 31, 2016 expiry date. The repricing was contemplated under the Arrangement and was effective to certain TMS warrants May 21, 2015. For the remaining warrants, the warrant holders retain the option of maintaining the original terms of the MTI warrants instead of exchanging for the new terms of the TMS warrants.

The following table summarizes warrants outstanding at December 31, 2015 on a post-consolidation basis. All warrants are exercisable.

Warrants Outstanding	Revised Exercise Price	Revised Expiry Date	Original Exercise Price	Original Expiry Date
1,054,550	$1.00 CAD	January 31, 2016	$1.30 CAD	June 30, 2015
338,500	$1.00 CAD	January 31, 2016	$1.50 USD	July 14, 2015
1,264,250	$1.00 CAD	January 31, 2016	$1.30 CAD	October 19, 2015
1,577,500	$1.00 CAD	January 31, 2016	$1.30 CAD	December 28, 2015
183,700	$1.00 CAD	January 31, 2016	$1.50 USD	July 4, 2015
557,200	$1.00 CAD	January 31, 2016	$1.50 USD	August 14, 2015
99,806	$1.00 CAD	January 31, 2016	$2.25 CAD	October 21, 2018
10,000	$1.00 CAD	January 31, 2016	$1.50 USD	November 26, 2016
20,000	$1.30 CAD	May 24, 2016	$1.30 CAD	May 24, 2016
462,959	$1.30 CAD	May 31, 2016	$1.30 CAD	May 31, 2016
207,563	$1.75 CAD	May 31, 2016	$1.75 CAD	May 31, 2016
202,348	$1.50 USD	November 26, 2016	$1.50 USD	November 26, 2016
604,400	$2.25 CAD	October 21, 2018	$2.25 CAD	October 21, 2018
6,582,776				

10. SHARE CAPITAL (continued)

A summary of the status of the warrants outstanding is as follows:

	Pre-consolidation		Post-consolidation	
	Number	Weighted average exercise price	Number	Weighted average exercise price
Outstanding, April 10, 2015	-	-	-	-
Warrants transferred on May 21, 2015	32,913,886	$ 0.24	6,582,776	$ 1.20
Issued	-	-	-	-
Expired	-	-	-	-
Cancelled	-	-	-	-
Balance, December 31, 2015	**32,913,886**	$ 0.24	**6,582,776**	$ 1.20

At January 31, 2016, 5,085,506 (pre-consolidation 25,427,530) warrants expired as they had January 31, 2016 expiry dates. The remaining warrants have expiry dates between May 2016 and October 2018.

d) Long Term Performance Incentive Plan

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. All of these securities could potentially dilute basic earnings per share in the future but were not included in the computation of diluted net loss per share because they were anti-dilutive.

(i) Stock options

The following table summarizes the changes in stock options and information about the Company's stock options outstanding at December 31, 2015:

	Pre-consolidation		Post-consolidation	
	Number of options	Weighted Average Exercise Price (C$)	Number of options	Weighted Average Exercise Price (C$)
Outstanding, April 10, 2015	-	-	-	-
Granted (1)(2)	**16,225,000**	$ 0.15	**3,245,000**	$ 0.75
Exercised	-	-	-	-
Forfeited	**(375,000)**	0.15	**(7,500)**	0.75
Outstanding, December 31, 2015 (3)	**15,850,000**	$ 0.15	**3,237,500**	$ 0.75
Exercisable, December 31, 2015	**7,971,875**	$ 0.15	**1,594,375**	$ 0.75

(1) There were 2,985,000 (pre-consolidation 14,925,000) stock options granted to employees for the period ended December 31, 2015, which are exercisable at C$0.75 (pre-consolidation C$0.15) per option, expire in May 2020, and had a total fair value of $1,610,791 (C$1,966,453) at the date of grant. Of these options 1,100,000 (pre-consolidation 5,500,000) vest over one year and the remainder vest over 22 months. There were 140,000 (pre-consolidation 700,000) stock options granted to employees for the period ended December 31, 2015, which are exercisable at C$0.85 (pre-consolidation C$0.17) per option, expire in September 2020, and had a total fair value of $73,891 (C$97,661).

(2) There were 120,000 (pre-consolidation 600,000) stock options granted to non-employees for the period ended December 31, 2015, which are exercisable at C$0.75 (pre-consolidation C$0.15) per option, expire in May 2020, and vest over 22 months. The fair value of these options is measured at the completion of each service period and recognized as share-based compensation.

(3) The remaining contractual life in years for the stock options granted is 4.3 years at December 31, 2015.

For the period ended December 31, 2015, total share-based compensation related to stock options was $1,303,773 which was included as share-based compensation in the Consolidated Statement of Comprehensive Loss. The weighted average fair value of stock options granted of C$0.65 (pre-consolidation C$0.13) per option during the period ended December 31, 2015 was calculated as of the date of grant using the Black-Scholes option pricing model using the following assumptions and inputs:

Expected life - years	**5**
Expected volatility	**137%**
Expected dividend yield	**0%**
Estimated forfeiture rate	**0%**
Risk-free interest rate	**0.90%**
Weighted average share price (C$)	**$0.75**

10. SHARE CAPITAL (continued)

(ii) Restricted share units ("RSUs")

The Company issued 800,000 (pre-consolidation 4,000,000) RSUs on May 21, 2015. Each RSU vests 50% at 12 months from the date of grant and the remaining 50% at 18 months from date of grant provided that the holder remain as a director the Company until such dates. The fair value was C$0.75 (pre-consolidation C$0.15) per RSU with a total fair value of $491,481 (C$600,000) based on the market value underlying shares at the date of issuance. For the period ended December 31, 2015, a total of $238,914 was recorded as share-based compensation associated with the vesting of these RSUs.

At December 31, 2015, there were 800,000 (pre-consolidation 4,000,000) RSUs outstanding.

(iii) Performance share units ("PSUs")

The Company granted 500,000 (pre-consolidation 2,500,000) PSUs on May 21, 2015. 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 on a post-consolidation basis.

Performance Level	Highest Share Price Attained During Performance Period	Payout (% of Target)	Awards Earned
Target	≥$1.3125 (i.e. ≥75% increase)	100%	500,000
Median	$1.125 (i.e. 50% increase)	66.67%	333,333
At / Below Price on Grant Date	≤$0.75	33%	166,667

The fair value of PSUs granted was calculated as of the date of grant using the market price of the common shares and a Monte Carlo Simulation to determine the number of PSUs expected to vest over the measurement period. At May 21, 2015, the share price was C$0.75 (pre-consolidation C$0.15). The number of shares expected to vest based on the simulation was 240,436 (pre-consolidation 1,202,181) at grant date.

The total share-based compensation expense included in the Consolidated Statement of Loss relating to PSUs for the period ended December 31, 2015 was $60,318. As the Company's intent is to issue any PSU's from treasury, the offsetting entry was to share-based payment reserve. On issuance of the shares, if any, this amount will be reclassified to share capital. At December 31, 2015, there were 500,000 (pre-consolidation 2,500,000) PSUs outstanding.

11. RELATED PARTIES

(a) Related party transactions

The Company's related parties include its subsidiaries and key management personnel. As at December 31, 2015, the Company owed a total of $68,096 to officers and directors which was included in accounts payable and accrued liabilities. These amounts were unsecured, non-interest bearing and have no fixed terms of repayment.

(b) Compensation of directors and other key management personnel

Compensation paid or payable to the Company's directors and key management for services provided during the period ended December 31, 2015 was as follows. Key Management is defined by the Company as the Chief Executive Officer and the Chief Financial Officer and their controlled companies.

Consulting, Management, Directors and Professional fees	$	914,426
Fair value of bonus shares issued		565,203
Share-based compensation		1,522,588
	$	3,002,217

For the period ended December 31, 2015, included in Consulting, Management, Director's and Professional fees are amounts paid to key management of $327,234. Of the fair value of bonus shares issued and share-based compensation, respectively, $368,611 and $377,084 relates to key management.

12. INCOME TAXES

The difference between tax expense for the period ended December 31, 2015 and the expected income taxes based on the statutory tax rate arises as follows:

		2015
Income (loss) before income taxes	$	(3,298,067)
Tax recovery based on the statutory rate of 26%	$	(857,000)
Non-deductible expenses		181,000
Tax rate differential due to other jurisdictions		(156,000)
Unrecognized deferred tax assets		832,000
Total income tax expense / (recovery)	$	-

Effective December 31, 2015, the BC provincial tax rate is 11% while the Canadian Federal corporate tax rate is at 15%. The US tax rate remained at 35%.

Deferred Tax Assets and Liabilities

The nature and tax effect of the temporary differences giving rise to the deferred tax assets and liabilities at December 31, 2015 are summarized as follows:

		2015
Tax losses carried forward	$	747,000
Capital assets		85,000
		832,000
Unrecognized deferred tax assets		(832,000)
Net deferred tax assets	$	-

As at December 31, 2015, the Company had non capital losses of $1,246,000 in Canada that will expire by 2035. In the US, the Company has losses of $1,464,000 that expire by 2035.

13. SEGMENTED INFORMATION

The Company operates in one industry segment, being its microwave technology. At December 31, 2015, the Company held all its non-current assets in the USA.

14. FINANCIAL INSTRUMENTS AND RISKS

(a) Fair value information

As at December 31, 2015, the Company's financial instruments consist of cash, receivables, accounts payable and accrued liabilities and derivative liabilities and performance share liability. With the exception of the derivative liabilities and performance share liability, 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.

The categories of the fair value hierarchy that reflect the significance of inputs used in making fair value measurements are as follows:

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);

During the period ended December 31, 2015, the Company had derivative liabilities and performance share liability that were required to be recorded at fair value using level 3 inputs (see notes 9 and 10(d)).

14. FINANCIAL INSTRUMENTS AND RISKS (continued)

(b) Financial instruments and related risks

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 the normal course of business, the Company enters into contracts that give rise to commitments for future minimum payments. The following table summarizes the remaining contractual maturities of the Company's financial liabilities and operating and capital commitments.

	Within 1 year	2 to 5 years	Over 5 years	Total
Accounts payable and accrued liabilities	$ 251,680	$ -	$ -	$ 251,680
Minimum rental and lease payments (1)	94,652	557,069	833,837	1,485,558
	$ 346,332	$ 557,069	$ 833,837	$ 1,737,238

(1) Includes annual rent on 7,500 square foot building located in Gaithersburg, Maryland operating lease including certain operating, maintenance and repair costs. See Note 16.

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 exposed to credit risk from holding cash with major financial institutions.

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 Canadian dollar. 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 Company is exposed to currency risk through the following denominated in foreign currencies at December 31, 2015:

	C$
Cash	$ 48,856
Receivables	124,435
	173,291
Accounts payable and accrued liabilities	145,801
	$ 145,801

15. MANAGEMENT OF CAPITAL

The Company's objectives of capital management are to safeguard its ability to support the Company's normal operating requirements on an ongoing basis, continue the research and development of its technology and support any expansionary plans.

The Company manages its capital structure and makes adjustments based on the funds available. 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'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 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. At December 31, 2015, the Company expects that its current cash on hand in addition to the shareholder loans received subsequent to period end, will be sufficient to meet its current obligations.

At December 31, 2015, there was no externally imposed capital requirement to which the Company is subject.

16. LEASE COMMITMENTS

In August 2015, the Company entered a lease for the rental of a 7,500 square-foot building located in Gaithersburg, Maryland for a period of 10.5 years. The Company took possession of the building in December 2015. The space will be used in conjunction with the Company's research and development activities. Annual rent is approximately $90,000, subject to a 3% escalation per year, following a six-month rent free period. The Company will also be responsible for certain operating, maintenance and repair costs in respect of the building, which have been initially estimated at $42,000 per year. A deposit of $15,048 is refundable at the end of the terms subject to certain restrictions.

In August 2014, MTI signed a two year sublease with a 1 year automatic renewal for premises in Virginia and an option to purchase the land. The original annual rent was 80,000 MTI stock options with an exercise price of C$0.20 expiring in 5 years, or the monetary equivalent. Pursuant to the Plan of Arrangement these options were to be cancelled and replaced with TMS stock options. The Company is currently in negotiations related to this sublease and at December 31, 2015 no stock options had been issued. The Company determined that the liability could not be measured with certainty at December 31, 2015.

17. SUBSEQUENT EVENTS

(a) Investors Relations Contract

On February 2, 2016, the Company announced that Kin Communications ("Kin") had been engaged to provide investor relations services to the Company and assist TMS in increasing public awareness. Kin will be paid C$30,000 over a 3-month period and C$7,500 on a month-to-month basis thereafter. Kin will also be granted 200,000 post-consolidation stock options at a price of C$0.75 per share, vesting immediately on the date of grant and exercisable for a period of 3 years. If the contract is still effective on January 2, 2017, Kin will be granted an additional 100,000 stock options at the minimum required price, which shall vest over 1 year as to 25% each quarter. TMS will grant a further 100,000 stock options on the same terms each successive one year anniversary following January 2, 2017 should the contract be in effect.

(b) Advisory Board appointment

On January 11, 2016, the Company announced the appointment of the Hon. John Reynolds to the Advisory Board. Mr. Reynolds was granted 50,000 post-consolidation stock options at a price of C$0.80 expiring January 6, 2021, and vesting as to 12.5% each quarter starting March 31, 2016 and ending December 31, 2017.

(c) Change in consulting agreements

During March 2016, the Company negotiated terms with two former employees who were involved in the construction and commissioning of the pilot plant to continue with the Company on a retainer basis through May 31, 2017. These employees will receive consulting fees for 60 days and their stock options will continue to vest until the end of their original service period.

(d) Loan agreements

Subsequent to December 31, 2015, the Company entered into two separate Loan Agreements with Dr. James Young, Chairman of the Board, and Satellite Overseas (Holdings) Limited for an aggregate amount of $2 million. Each loan agreement provides for the issuance of a promissory note by TMS of $1,000,000. The notes mature two years from the date of issuance and bear 3% interest calculated semi-annually with all principal and interest due on maturity of the notes. The lenders have the option to convert any portion of the principal and accrued interest to common shares of the Company at the price determined on notification of such conversion. TMS may prepay the loans in whole or in part without penalty, fees or charges.