

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2016

August 29, 2016

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This management's discussion and analysis ("**MD&A**") of the operating results and financial position of Targeted Microwave Solutions Inc. ("**TMS**") should be read in conjunction with the consolidated financial statements of TMS for the three and six months ended June 30, 2016 and the related notes thereto and the audited consolidated financial statements of TMS for the period ended December 31, 2015 and the related notes thereto, copies of which are available on SEDAR at www.sedar.com.

TMS's financial statements for the three and six months ended June 30, 2016 have been prepared in accordance with International Accounting Standard 34 – *Interim Financial Reporting*, as issued by the International Accounting Standards Board ("**IASB**"). Management is responsible for the preparation of the consolidated financial statements and any other financial information relating to TMS included in this MD&A. This MD&A has been prepared as of August 29, 2016.

All figures are in United States dollars unless otherwise noted. References to "C$" are to Canadian dollars.

Any market and industry data contained in this MD&A is based upon discussions with or information, surveys or studies conducted by independent third parties and independent industry or general publications and TMS's knowledge of, and experience in, the markets in which it operates. TMS has no reason to believe that such information is false or misleading; however, market and industry data is subject to variation and cannot be verified with complete certainty due to limits on the availability and reliability of raw data, the voluntary nature of the data-gathering process and other limitations and uncertainties inherent in any statistical survey. This information has not been independently verified by TMS, any of its directors, officers or representatives or any other person involved in the preparation of this MD&A, and no representation is given as to the accuracy or completeness of any of the data referred to in this MD&A obtained from any third party sources.

Any websites referred to herein are intended to be inactive textual references only, meaning that the information contained on such websites is not incorporated by reference herein, and readers should not consider information contained on such websites as part of this document.

References in this MD&A to "**Company**" or "**TMS**" mean Targeted Microwave Solutions Inc., together with its subsidiaries, unless the context otherwise requires.

FORWARD-LOOKING STATEMENTS

Except for statements of historical fact contained herein, the information presented in this MD&A constitutes "forward-looking statements" or "information" (collectively "**forward-looking statements**"). These statements relate to analyses and other information that are based upon forecasts of future results, estimates of amounts not yet determinable and assumptions of management.

Any statements that express or involve discussions with respect to predictions, expectations, beliefs, plans, projections, objectives, assumptions or future events or performance (often, but not always, using words or phrases such as "expects" or "does not expect", "is expected", "anticipates" or "does not anticipate", "plans", "estimates" or "intends", or stating that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved) are not statements of historical fact and may be "forward-looking statements". Such forward- looking statements include, but are not limited to, those with respect to: the benefits of and development and commercialization, if at all, of TMS's microwave technology; financial information regarding TMS and/or its availability and use of funds; TMS's research into the drying potential of its microwave application to natural mineral aggregates, other naturally occurring raw materials and processed feedstock; demand for electricity generation; the status of environmental and other regulation; the timing, completion or benefits of any joint venture or similar arrangement; the effectiveness of new improvements in TMS's Generation II reactors and TMS's planned new Generation III reactors; and other factors and events described herein.

Forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual plans, results, performance or achievements of TMS to be materially different from any future plans, results, performance or achievements expressed or implied by such forward-looking statements. Such risks and other factors include, among

others: limited operating history; financing risks; shareholder influence; technical issues and delays; commercial viability of processed industrial materials; negative results of technology testing and development; commercial acceptance; construction of commercial plants; management of growth; joint ventures; relationships with strategic partners; foreign operations; foreign subsidiaries and repatriation of earnings; technology and protection of intellectual property; invalidation of patents; intellectual property infringement; environmental and safety regulations and risks; dependence on key management personnel, employees and consultants; anti-bribery and anti-corruption; capital cost estimates increased demand for services and equipment; competition; currency fluctuations; natural and human caused disasters; litigation; possible conflicts of interest of directors and officers of TMS; market price and listing of common shares; regulatory risks; tax exposures; changes in laws and regulations; uninsurable risks; and current global financial conditions; and other factors discussed under the heading "Risk Factors" in our MD&A for the period ended December 31, 2015. Although TMS has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in the forward-looking statements, there may be other factors that cause actions, events or results not to be as anticipated, estimated or intended. There can be no assurance that such statements will prove to be accurate as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements contained in this MD&A.

Forward-looking statements are made based upon management's beliefs, estimates and opinions on the date the statements are made, and TMS undertakes no obligation to update any forward-looking statement if these beliefs, estimates and opinions or other circumstances should change, except as may be required by applicable law.

FINANCIAL PRESENTATION

TMS was incorporated on April 10, 2015, and has a fiscal year end of December 31.

The functional currency of TMS is the U.S. dollar. Effective December 31, 2015, TMS changed its presentation currency from the Canadian dollar to the U.S. dollar. Management adopted a U.S. dollar presentation currency as the majority of TMS's operating and construction costs, including principally construction costs related to the Virginia Facility (defined below), investment in the TMS microwave technology, and equity and debt financings, are incurred or take place in U.S. dollars. Accordingly, management believes that a U.S. dollar presentation currency better reflects the actual operations of TMS, and provides more complete information to readers without the need to adjust for variable foreign exchange rates.

Effective May 21, 2015, La Jolla Capital Inc. (formerly "MicroCoal Technologies Inc.") ("**MicroCoal**") completed a court approved plan of arrangement under applicable corporate legislation with its security holders and TMS (the "**Arrangement**"). TMS considered that the Arrangement was a "common-control transaction" and not a "business combination" as defined under IFRS 3, as the shareholders immediately prior to and immediately after the effective time of the Arrangement were the same. As IFRS does not specify an accounting approach on common-control transactions, an accounting policy choice is necessary. TMS determined that a policy of accounting for the transfer of net assets from MicroCoal to TMS at book values was most appropriate. As a result, TMS is not presenting comparatives as if the combination had taken place before the start of the earliest period presented in its financial statements. As TMS was incorporated on April 10, 2015, there are no comparative results or operations for the three months ended March 31, 2015, as TMS did not carry on any business.

COMPANY OVERVIEW

TMS was incorporated on April 10, 2015 under the *Business Corporations Act* (British Columbia). TMS is a reporting issuer in the provinces of Alberta, British Columbia and Ontario, and its common shares commenced trading on the Canadian Securities Exchange ("**CSE**") under the symbol "TMS" on May 22, 2015. TMS did not carry on any business from the date of incorporation until the effective time of the Arrangement (described below). In October 2015, TMS began trading on the OTCQX under the symbol "TGTMF", for the purpose of, *inter alia*, providing improved access to TMS's stock for U.S. based investors. On May 16, 2016, TMS was voluntarily delisted from the CSE and, on the next day, began trading on the TSX Venture Exchange (the "**TSX-V**") under the symbol "TMS".

TMS is a microwave process developer specializing in clean emission, high-throughput industrial drying solutions.

It is generally accepted that increasingly stringent environmental regulations have dramatically impacted the industrial sector worldwide. Emissions and disposal compliance costs in the developed world, for example, have impacted profitability and hindered growth for key commercial sectors, including industrial manufacturing, material processing and refining and energy production. TMS believes that meeting the demand for new technologies capable of efficiently decreasing environmental footprint represents a significant global economic opportunity.

TMS's proprietary microwave beneficiation systems are being developed to specifically address the increasing environmental costs of a cornerstone of the global manufacturing and processing economy – industrial drying. The TMS technology represents a unique, vertical microwave system that may be deployed to dry, re-size and calcinate industrial aggregates at high throughput capacity. TMS believes that its technology will allow for superior energy efficiency, process control and a clean emission profile, allowing TMS to deliver effective drying solutions that can fundamentally challenge the mainstream narrative that large-scale industry is incompatible with responsible, environmental policy.

The core TMS technology is a proprietary microwave delivery and process control system being designed to achieve consistent moisture reduction across a wide range of industrial aggregates with challenging bulk densities, particle sizes and flow characteristics. Unlike conventional thermal drying technologies, which have existed for over 50 years, the TMS process generates heat within the input material, as opposed to wasting energy by first heating the environment around the target material. This unique approach allows for significantly cooler ambient temperatures during processing, which helps substantially mitigate combustion risk and prevent the unwanted release of volatile gases that generate polluting greenhouse emissions. In initial continuous trials conducted at TMS's commercial demonstration facility in King William, Virginia (the "**Virginia Facility**"), the TMS system has shown heat transfer efficiency rates that are up to four times better than competing conventional thermal rotary drier technologies. Additionally, TMS microwave drying solutions use power only when needed and can be turned on or off instantaneously, making the process compatible for automatic control and real-time calibration based on key control factors, such as resonance time, microwave power and feed rate.

TMS's current "Generation II" system is designed to occupy a small footprint and integrate easily into a variety of manufacturing operations, and can deliver up to 800 kilowatts of concentrated 0.915 gigahertz microwave power to a variety of target feedstocks (such as industrial minerals, low-rank coal and wood chips) on a continuous feed basis. Despite its light-industrial characteristics, the TMS system can achieve processing throughput rates traditionally associated with heavy industrial equipment by utilizing a proprietary vertical processing design and in-house processing controls software.

TMS also has a research and development center located in the Avenel Business Park, Gaithersburg, Maryland, which is only 130 miles from the Virginia Facility, where TMS engineers develop the company's intellectual property and equipment.

Additional information relating to TMS is available on SEDAR at www.sedar.com.

PLAN OF ARRANGEMENT

Effective May 21, 2015, MicroCoal completed a court approved plan of arrangement under the *Canada Business Corporations Act* with its security holders and TMS. TMS was a wholly-owned subsidiary of MicroCoal prior to the effective time of the Arrangement, incorporated for the purposes of, and in connection with, the Arrangement. Pursuant to the Arrangement, MicroCoal caused substantially all of its business, operations, assets and liabilities to be transferred to TMS, following which, among other things: (i) each holder of MicroCoal's common shares as at the effective time of the Arrangement received one (1) common share of TMS for each common share so held; (ii) holders of MicroCoal warrants were entitled to warrants of TMS in place of their MicroCoal warrants; (iii) TMS had substantially all of the

same assets, liabilities, directors, management and consultants as MicroCoal previously had; and (iv) TMS commenced pursuing the business previously carried on by MicroCoal.

For further details of the Arrangement, please see the management information circular of MicroCoal dated April 15, 2015 filed on SEDAR at www.sedar.com.

SIGNIFICANT DEVELOPMENTS IN THREE MONTHS ENDED JUNE 30, 2016

On May 16, 2016, TMS announced that it received final approval from the TSX-V for the listing of TMS's common shares for trading on the TSX-V. TMS's common shares began trading on the TSX-V effective the open of the market on Tuesday, May 17, 2016, and continue to trade under the stock symbol "TMS". As a result of the listing of TMS's common shares on the TSX-V, its common shares have been voluntarily delisted from the CSE.

On June 9, 2016, the Company announced that Lawrence Siegel had decided to retire as Chief Executive Officer of the Company, effective June 30, 2016. Dr. James Young will act as interim Chief Executive Officer of the Company until a qualified replacement for Mr. Siegel is identified. Mr. Siegel will continue with TMS as a director of the Company.

During the first quarter of 2016, TMS announced that it had completed data analysis from its initial commercial-scale drying trials with Nestle-Purina. During these tests, the TMS Generation II system demonstrated the ability to handle clay at 43 tons per hour at maximum flow capacity. The TMS system was also able to achieve Nestle-Purina's drying target, reducing total input moisture from 31.49% total moisture to 9.51% total moisture, representing a drying efficiency rate of 1.50 pounds of water removed per kilowatt hour of input energy, and demonstrating an approximate 35% drying efficiency improvement over conventional rotary driers. The testing at the King William, Virginia plant also demonstrated that the TMS process could achieve commercially relevant drying targets without generating any polluting air emissions. In the second drying trials with Nestle-Purina during the three month ended June 30, 2016, modifications to the TMS system showed a further 73% improvement in drying efficiency, over the initial trial, at optimum processing ranges, and a reduction in total moisture content of the test material from 28.34% to 6.04%.

On June 30, 2016, the Company announced that it has awarded the Generation III reactor module fabrication contract to a well-respected US-based company, who is a metal fabrication company with decades of experience completing challenging prototype projects that require precise laser cutting, computer numerical controlled milling, and robotic welding. Beyond completing the fabrication work, this company is expected to assist TMS further analyze and review the Gen III mass flow improvements using 3 Dimensional software modeling. The completion of the Gen III system is currently TMS's top priority. The Gen III technology is expected to be operational by the end of fiscal 2017.

OPERATING PERFORMANCE

During the three and six months ended June 30, 2016, TMS's primary focus included completing and analyzing the data from its commercial-scale drying trials with Nestle-Purina, advancing the design of the planned Generation III microwave reactors, and retaining additional qualified staff at TMS's research and development center in Gaithersburg, Maryland.

Three months ended June 30, 2016 compared to the three months ended June 30, 2015

Net loss for the three months ended June 30, 2016 was $831,660 compared to $1,028,938 for the three months ended June 30, 2015. TMS incurred a net loss for the three months ended June 30, 2016 and 2015, respectively, of $905,443 and $456,428 excluding non-cash items of: share-based compensation expense of $280,220 (2015 - $701,353), plant and equipment depreciation of $142,064 (2015 - $0), accretion expense of $36,073 (2015 - $0), a foreign exchange loss of $108,419 (2015 - $0), and a gain on the fair value changes in derivative liability of $640,555 (2015 - $128,843). Cash operating expenses for the three months ended June 30, 2016 consisted primarily of consulting, management and director fees, office rent, salaries and professional fees, together with supplies and materials used by TMS in connection with the operation of the Virginia and Maryland Facilities.

Research and development spending during the three months ended June 30, 2016 was $474,362, which primarily consisted of facility related costs, compensation for an increased technical staff and operating supplies. TMS's structured research, testing, design and commercialization program is expected to be the primary focus of TMS's cash resources for the remainder of the 2016 fiscal year, together with any related capital spending required at the Virginia Facility. Research and technology development costs are included in various expense line items included in TMS's consolidated financial statements.

Consulting, management and director fees increased by $58,708 to $248,587 for the three months ended June 30, 2016 from $189,879 for the three months ended June 30, 2015. Salary costs increased by $187,335 from the three months ended June 30, 2016 representing personnel costs at TMS's Virginia and Maryland sites as for the three months ended June 30, 2015 TMS's engaged only consultants and these costs where included in consulting, management and director fees. At June 30, 2016, TMS staff consisted of 12 full-time employees and two part-time contractors.

Office, rent and associated expenses were $98,085 for the three months ended June 30, 2016, which includes rent for TMS's corporate offices in Vancouver and rent for TMS's research and development center in Gaithersburg, Maryland. For the three months ended June 30, 2015 costs were $44,500 which included mainly expenses associated with the setup of the Vancouver office. The Virginia Facility operating costs (including site supplies, services and utility costs) were $69,588 for the three months ended June 30, 2016 (2015 - $4,648).

Investor relations, filing and compliance fees increased by $53,140 to $66,841 for the three months ended June 30, 2016 from $13,701 for the three months ended June 30, 2015 as the Company continued to invest in investor relations and incurred regulatory costs associated with being listed on the TSX.

Share-based compensation expense was $280,220 for the three months ended June 30, 2016 compared to $701,353 for the three months ended June 30, 2015 related to instruments awarded under TMS's long-term performance incentive plan. Share-based compensation is impacted by the number on instruments granted in a period, the fair value of those instruments and the vesting terms.

During the three months ended June 30, 2016, TMS recorded a foreign exchange loss of $108,419 due to the conversion of Canadian dollar denominated cash to U.S. dollars for financial reporting purposes. TMS continued to benefit from a significant increase in the strength of the U.S. dollar relative to the Canadian dollar for the three months ended June 30, 2016. Indicative rates moved from US$1.00 to C$1.2201 on May 21, 2015 to US$1.00 to C$1.2917 on June 30, 2016. The increase in the strength of the U.S. dollar relative to the Canadian dollar has, in real terms, assisted TMS to reduce its general and administration costs in Canada.

Other Income (Expenses)

During the three months ended June 30, 2016, TMS recorded a gain on the fair value change in derivative liability of $640,555, resulting from a change in the number of outstanding warrants issued by TMS, and a change in the derivative liability on the conversion option related to the Loans. Accretion and interest expense was $36,073 for the three months ended June 30, 2016 and these costs were recorded as operating costs. The Loans were not in place at June 30, 2015 and thus there was no comparative expense. During the three months ended June 30, 2015, TMS recorded a gain on the fair value change in derivative liability of $128,843 associated with Canadian dollar denominated warrants.

Six months ended June 30, 2016 compared to the six months ended June 30, 2015

Net loss for the six months ended June 30, 2016 was $1,799,671 compared to $1,028,938 for the six months ended June 30, 2015. The six months ended June 30, 2015 includes results from date of incorporation on April 10, 2015 to June 30, 2015. TMS incurred a net loss for the six months ended June 30, 2016 and 2015, respectively, of $1,567,952 and $456,428 excluding non-cash items consisting of: share-based compensation expense of $646,567 (2015 - $701,353), plant and equipment depreciation of $271,008 (2015 - $0), accretion expense of $134,086 (2015 - $0), a foreign exchange loss of

$3,021 (2015 - $0), and a gain on the fair value changes in derivative liability of $822,963 (2015 - $128,843). Cash operating expenses for the six months ended June 30, 2016 consisted primarily of consulting, management and director fees, office rent, investor relations, compliance fees, salaries and professional fees, together with supplies and materials used by TMS in connection with the operation of the Virginia and Maryland Facilities.

Research and development spending during the six months ended June 30, 2016 was $866,139, which primarily consisted of facility related costs, compensation for an increased technical staff and operating supplies. TMS's structured research, testing, design and commercialization program is expected to be the primary focus of TMS's cash resources for the remainder of the 2016 fiscal year, together with any related capital spending required at the Virginia Facility. Research and technology development costs are included in various expense line items included in TMS's consolidated financial statements.

Consulting, management and director fees increased by $249,421 to $439,300 for the six months ended June 30, 2016 from $189,879 for the six months ended June 30, 2015. Salary costs increased by $404,346 for the six months ended June 30, 2016 representing personnel costs at TMS's Virginia and Maryland. For the six months ended June 30, 2015, TMS's engaged only consultants and these costs where included in consulting, management and director fees. At June 30, 2016, TMS staff consisted of 12 full-time employees and two part-time contractors.

Office, rent and associated expenses were $250,282 for the six months ended June 30, 2016, which includes rent for TMS's corporate offices in Vancouver, rent for TMS's research and development center in Gaithersburg, Maryland. For the six months ended June 30, 2015, this category includes cost associated with the setup of the Vancouver office. The Virginia Facility operating costs (including site supplies, services and utility costs) were $135,867 for the six months ended June 30, 2016 (2015 - $4,648).

Investor relations, filing and compliance fees were increased by $85,247 to $98,948 for the six months ended June 30, 2016 from $13,701 for the three months ended June 30, 2015 as the Company continued to invest in investor relations and incurred regulatory costs associated with being listed on the TSX.

Share-based compensation expense was $646,567 for the six months ended June 30, 2016 compared to $701,353 for the six months ended June 30, 2015 related to instruments awarded under TMS's long-term performance incentive plan. Share-based compensation is impacted by the number on instruments granted in a period, the fair value of those instruments and the vesting terms.

Other Income (Expenses)

During the six months ended June 30, 2016, TMS received a non-repayable grant of $60,000 in the period from the State of Maryland with respect to the opening of TMS's research and development office in Gaithersburg, Maryland. There was no other income or expense in the six months ended June 30, 2015.

During the six months ended June 30, 2016, TMS recorded a gain on the fair value change in derivative liability of $822,963, resulting from a change in the number of outstanding warrants issued by TMS, and a change in the derivative liability on the conversion option related to the Loans. Accretion and interest expense was $134,086 for the six months ended June 30, 2016 and these costs were recorded as operating costs. The Loans were not in place at June 30, 2015 and thus there was no comparative expense. During the six months ended June 30, 2015, TMS recorded a gain on the fair value change in derivative liability of $128,843 associated with Canadian dollar denominated warrants.

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2016

SUMMARY OF QUARTERLY RESULTS:

	Second Quarter Ended June 30, 2016	First Quarter Ended March 31, 2016	Fourth Quarter Ended December 31, 2015	Third Quarter Ended September 30, 2015	Second Quarter Ended June 30, 2015
Loss Per Share[(1)]	$ (0.02)	$ (0.03)	$ (0.03)	$ (0.03)	$ (0.03)
Net Loss[(2)]	$ (831,660)	$ (968,011)	$ (1,224,509)	$ (1,044,620)	$ (1,028,938)
Total Assets[(3)]	$ 6,066,950	$ 7,178,170	$ 5,998,155	$ 6,834,274	$ 8,329,919
Cash [(3)]	$ 2,231,470	$ 3,385,475	$ 2,149,070	$ 3,240,479	$ 4,739,089

(1) In December 2015, TMS completed a consolidation of its issued and outstanding securities on a 5:1 basis (the "**Share Consolidation**"). The reported per share amounts are reported after giving effect to the Share Consolidation. Following the Share Consolidation, TMS's issued and outstanding: (i) common shares were reduced from 184,100,076 to 36,820,010; (ii) warrants were reduced from 32,913,886 to 6,582,776; and (iii) stock awards were reduced from 16,225,000 to 3,245,000. TMS did not issue any fractional securities pursuant to the Share Consolidation.

(2) The reported net loss amounts for the three months ended June 30 and September 30, 2015 have been translated from Canadian to U.S. dollars based upon average period foreign exchange rates of 1.2366 CDN/US and 1.3091CDN/US, respectively. See also Change in Presentation Currency.

(3) The reported total assets amounts for the three months ended June 30 and September 30, 2015 have been translated from Canadian to U.S. dollars based upon the period end foreign exchange rates of 1.2474 CDN/US and 1.3394 CDN/US, respectively. See also Change in Presentation Currency.

The quarterly fluctuations in net loss are generally correlated to the level of activities related to the construction, testing and commissioning of the Virginia Facility. In the second quarter ended June 30, 2015, for example, significant costs were incurred by TMS in connection with the testing and commissioning of the Virginia Facility, which continued in the third quarter ended September 30, 2015. The decrease in net loss in the fourth quarter ended December 31, 2015 was primarily attributable to a gain on the change in fair value of derivative liabilities in the period.

Change in Presentation Currency

For comparative purposes, the Condensed Interim Consolidated Statements of Comprehensive Loss for the three and six month period ended June 30, 2015 includes adjustments to reflect the change in accounting policy at December 31, 2015 resulting from the change in presentation currency to US dollars. The amounts previously reported in Canadian dollars have been translated into US dollars at the rates set forth above. In addition, the reported financial statements at June 30, 2015 included comparatives attributable to MTI operations which were estimated to be attributable to TMS. As the Company was not incorporated until April 10, 2015, the above presented amounts have been adjusted to reflect the actual transactions of TMS in each period on a basis consistent with the accounting policies employed for the annual fiscal 2015 financial statements. As such, the translation of previously reported C$ expenses and cash flow information to US dollars has not been presented here.

As at the date hereof, TMS's financial position, financial performance and cash flows are not impacted by seasonality. TMS is not aware of any trends, demands, commitments, events or uncertainties that are reasonably likely to have an effect on its business, other than as set forth under "Risks and Uncertainties" below.

LIQUIDITY AND CAPITAL

During the six months ended June 30, 2016, the Company used cash flows from continuing operations of $1,685,940 (six months ended June 30, 2015 - $46,306). At June 30, 2016, TMS held $2,231,470 in cash and cash equivalents (December 31, 2015 - $2,149,070) and had working capital of $2,192,336, excluding non-cash derivative liabilities of $1,086,408. TMS's cash requirements are currently estimated by management to be approximately $650,000 per fiscal quarter, excluding any amounts that may be necessary for any capital expenditures. During the six months ended June 30, 2016,

TMS incurred $231,660 of capital expenditures. During the six months ended June 30, 2015, TMS incurred $598,786 of capital expenditures in addition to the transfer of assets from MicroCoal. Management expects TMS's capital spending to be approximately $600,000 in total for the 2016 fiscal year, as it narrows its focus to research and development of its Generation III reactor design and modifications to the existing TMS system, as well as commercialization activities.

During the six months ended June 30, 2016, TMS entered into loan agreements with Dr. James Young, Chairman of the TMS Board, and Satellite Overseas (Holdings) Ltd., a significant shareholder of TMS. Each Loan is for a principal amount of $1 million, matures in March 2018 and accrues interest at a rate of 3% per annum, compounded annually. TMS may prepay the Loans in whole or in part at any time without additional penalties, fees or charges. TMS is using the proceeds from these Loans to advance its research and development program, develop its commercialization and sales strategy and for general corporate purposes. In accordance with IFRS, for financial statement reporting purposes, the derivative liability associated with the conversion option has been separated from the principal amounts payable, which will be accreted to their face value over the term of the Loans. The derivative liability conversion option will be revalued at each period end until conversion or maturity of the Loans and may result in fluctuations in earnings reported as change in fair value of derivative instruments.

TMS generally manages its liquidity risk by preparing monthly cash flow forecasts, and anticipating investing and financing activities. Management and the Board are actively involved in the review, planning and approval of annual budgets and significant expenditures and commitments.

In the normal course of business, TMS may enter into contracts that give rise to contractual commitments for future payments. The following table summarizes TMS's contractual obligations in the periods indicated:

	Within 1 year	2 to 5 years	Over 5 years	Total
Lease payments[(1)]	$ 114,820	$ 596,666	$ 797,165	$ 1,508,651

(1) Includes annual rent for TMS's research and development center in Gaithersburg, Maryland, but is not exhaustive of all related expenses, such as operating, maintenance and repair costs.

From time to time, TMS may have capital requirements in excess of its available cash resources. In the event that TMS's business or operational plans change, its assumptions change or prove inaccurate, or its capital resources prove to be insufficient to fund operations, TMS may be required to seek additional financing. As at the date hereof, TMS expects such additional capital resources will be generated from equity financings and/or loans from related parties. Although TMS has been successful in raising funds through such sources in the past, there can be no assurance that additional financing will be available on terms acceptable to TMS in the future, or at all.

OFF-BALANCE SHEET ARRANGEMENTS

As at the date hereof, TMS does not utilize off-balance sheet arrangements.

TRANSACTIONS WITH RELATED PARTIES

During the six months June 30, 2016, TMS entered into the Loans with related parties as described above. During the six months ended the Company granted stock options and restricted stock units to employees and non-employee directors of the Company.

RISKS AND UNCERTAINTIES

A comprehensive discussion of risk factors is included in TMS's MD&A for the period ended December 31, 2015, a copy of which is available on SEDAR at www.sedar.com.

FINANCIAL INSTRUMENTS RISK EXPOSURE

TMS's risks related to financial instruments, including credit risk, liquidity risk, currency risk and interest rate risk, and TMS's strategy to manage risks, are described in note 14 to TMS's consolidated financial statements for the period ended December 31, 2015. As at the date hereof, TMS believes that there were no significant changes to those risks during the six months ended June 30, 2016, except as noted below:

Liquidity Risk

On March 8, 2016 TMS received Loans in the aggregate principal amount of $2,000,000. The Loans, which are due in March 2018, contain a conversion option which is considered a derivative liability and revalued at each period end. This derivative liability was measured issuing Level 3 inputs of the fair value hierarchy, which is used for prices and valuation techniques that require inputs that are both significant to the fair value measurement and which are unobservable (supported by little or no market activity).

OUTSTANDING SECURITIES DATA

As at August 29, 2016, TMS had the following outstanding securities:

SECURITY DESIGNATION	ISSUED AND OUTSTANDING (#)
Common Shares	36,820,010
Stock Options	5,000,000
Warrants	806,748
Performance Share Units	700,000
Restricted Share Units	966,666

BASIS OF PRESENTATION

TMS's unaudited condensed interim consolidated statements have been prepared in accordance with International Accounting Standard 34 – *Interim Financial Reporting*, as issued by the IASB. Accordingly, certain disclosures included in annual financial statements prepared in accordance with IFRS as issued by the IASB have been condensed or omitted. These unaudited condensed interim consolidated statements should be read in conjunction with TMS's audited consolidated financial statements for the period ended December 31, 2015, a copy of which is available on SEDAR at www.sedar.com.

The accounting policies applied in the preparation of these unaudited condensed interim consolidated statements are consistent with those applied and disclosed in TMS's audited consolidated financial statements for the period ended December 31, 2015, with the exception that TMS has adopted the amendments to IFRSs included in the Annual Improvements 2012-2014 cycle as well as a number of narrow scope amendments to certain IFRSs and IASs which are effective for annual periods beginning on or after January 1, 2016. TMS does not believe that these amendments had an impact on TMS's consolidated financial statements.

CRITICAL JUDGEMENTS AND ESTIMATES

The preparation of the consolidated financial statements requires that TMS's management makes assumptions and estimates of effects of uncertain future events on carrying amounts of TMS'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 TMS'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 TMS's assets and liabilities

are accounted for prospectively. TMS is also required to make critical judgements in applying certain of TMS's accounting policies.

In preparing TMS's unaudited condensed interim consolidated financial statements for the six months ended June 30, 2016, TMS applied the critical judgements and estimates disclosed in note 4 to its audited consolidated financial statements for the period ended December 31, 2015, and the following major estimate in applying accounting policies:

Determination of the Fair Value of Conversion Option in Loan Agreements

TMS is required to measure the conversion feature of the debt separately at its fair value. Estimating fair value for this conversion option requires determining the most appropriate valuation model and applying various estimates and assumptions in relation to the conversion option. The fair value of the conversion option impacts the amount recorded as loan payable and related accretion.