TARGETED MICROWAVE SOLUTIONS INC.

Condensed Interim Consolidated Financial Statements
(Unaudited)

For the three months ended March 31, 2016

(in U.S. dollars)

TARGETED MICROWAVE SOLUTIONS INC.

Condensed Interim Consolidated Financial Statements (Unaudited)

Notice of No Auditor Review

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

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

Targeted Microwave Solutions Inc.

Condensed Interim Consolidated Statements of Financial Position

(in U.S. dollars)

(Unaudited)

	Note	At March 31, 2016	At December 31, 2015
ASSETS			
Current			
Cash		$ 3,385,475	$ 2,149,070
Receivables		123,332	106,394
Prepaid expenses		7,746	8,894
		3,516,553	2,264,358
Property and equipment	4	3,646,569	3,718,749
Deposit		15,048	15,048
Total assets		$ 7,178,170	$ 5,998,155
LIABILITIES			
Current			
Accounts payable and accrued liabilities		$ 94,630	$ 251,680
Derivative liability	7	177,858	452,652
Derivative liability - conversion option	5	1,549,106	-
Deferred rent		33,352	8,338
		1,854,946	712,670
Loans payable	5	639,403	-
Total liabilities		2,494,349	712,670
SHAREHOLDERS' EQUITY			
Share capital		6,980,547	6,980,547
Share-based payment reserve		1,969,352	1,603,005
Deficit		(4,266,078)	(3,298,067)
		4,683,821	5,285,485
Total liabilities and shareholders' equity		$ 7,178,170	$ 5,998,155

Commitments (note 11(b))

Subsequent event (note 12)

Approved on behalf of the Board:

"Dr. James Young" — Director

"Dr. Stephen D. Crocker" — Director

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

Targeted Microwave Solutions Inc.

Condensed Interim Consolidated Statement of Changes in Shareholders' Equity

(in U.S. dollars)

(Unaudited)

	Notes	Shares	Amount	Share-based payment reserves	Deficit	Total
Balance - April 10, 2015		-	$ -	$ -	$ -	$ -
May 21, 2015 Effective Date - Plan of Arrangement	8(a)	35,900,010	8,366,409	-	-	8,366,409
Reclassification of warrants denominated in foreign currency to derivative liability	7	-	(1,951,065)	-	-	(1,951,065)
Bonus shares issued	8(b)	920,000	565,203	-	-	565,203
Restricted share units issued and vested	8(e)	-	-	238,914	-	238,914
Share-based compensation		-	-	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
Balance - January 1, 2016		36,820,010	$ 6,980,547	$ 1,603,005	$ (3,298,067)	$ 5,285,485
Restricted share units issued and vested	8(e)	-	-	102,392	-	102,392
Share-based compensation	8(d-f)	-	-	263,955	-	263,955
Loss for the period		-	-	-	(968,011)	(968,011)
Balance, March 31, 2016		36,820,010	$ 6,980,547	$ 1,969,352	$ (4,266,078)	$ 4,683,821

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

Targeted Microwave Solutions Inc.

Condensed Interim Consolidated Statement of Comprehensive Loss

(in U.S. dollars)

(Unaudited)

	Note	For the three months ended March 31, 2016
Expenses		
Site supplies, services and other		$ 66,279
Plant and equipment depreciation		128,944
Consulting, management and director fees		190,713
Foreign exchange (gain)		(105,398)
Office, rent and other		184,304
Professional fees		39,149
Salaries		217,011
Share-based compensation	8 (d-f)	366,347
Accretion and interest expense	5	98,013
Travel and promotion		27,091
Loss before other items		1,212,453
Other (income) expenses		
Interest income		(1,842)
Other income		(60,192)
Fair value change in derivative liability	5, 7	(182,408)
		(244,442)
Net and comprehensive loss		$ 968,011
Earnings (loss) per share, basic and diluted		$ (0.03)
Weighted average number of common shares outstanding - basic and diluted		36,820,010

Targeted Microwave Solutions Inc.

Condensed Interim Consolidated Statement of Cash Flows

(In U.S. Dollars)

(Unaudited)

	Note	For the three months ended March 31, 2016
Cash provided by (used in):		
Operating Activities		
Net loss for the period		**$ (968,011)**
Items not involving cash:		
Share-based compensation	8(d-f)	**366,347**
Depreciation	4	**128,944**
Accretion expense	5	**96,123**
Fair value change in derivative liability	5, 7	**(182,408)**
		(559,005)
Change in non-cash working capital:		
Receivables		**(16,938)**
Prepaid expenses		**1,148**
Accounts payable and accrued liabilities		**(157,050)**
Deferred rent		**25,014**
		(706,831)
Investing Activities		
Purchase of property and equipment	4	**(56,764)**
		(56,764)
Financing Activities		
Loan proceeds	5	**2,000,000**
		2,000,000
Increase in cash		**1,236,405**
Cash, beginning of period		**2,149,070**
Cash, end of period		**$ 3,385,475**
Items excluded from investing and financing activities:		
Conversion option	5	**1,456,720**

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 3 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

These unaudited condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard 34 – Interim Financial Reporting ("IAS 34") as issued by the International Accounting Standards Board ("IASB"). Accordingly, certain disclosures included in annual financial statements prepared in accordance with International Financial Reporting Standards ("IFRSs") as issued by the IASB have been condensed or omitted. These unaudited condensed interim consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2015.

The accounting policies applied in the preparation of these unaudited condensed interim consolidated financial statements are consistent with those applied and disclosed in the Company's audited consolidated financial statements for the year ended December 31, 2015, except for the following:

The Company has adopted the amendments to IFRSs included in the Annual Improvements 2012-2014 cycle and a number of narrow scope amendments to certain IFRSs and IASs which are effective for annual periods beginning on or after January 1, 2016. The amendments did not have an impact on the Company's unaudited condensed interim consolidated financial statements.

The Company's interim results are not necessarily indicative of its results for a full year. All amounts are expressed in US dollars, unless otherwise noted. References to C$ are to Canadian dollars.

These condensed interim consolidated financial statements were reviewed by the Audit Committee and approved and authorized for issue by the Board of Directors on May 26, 2016.

Significant judgements and estimates

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.

In preparing the Company's unaudited condensed interim consolidated financial statements for the three months ended March 31, 2016, the Company applied the critical judgements and estimates disclosed in note 4 of 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

The Company 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.

(in U.S. dollars)

3. 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.

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 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

4. PROPERTY AND EQUIPMENT

Cost	Plant & Equipment	Leasehold Improvements	Total
Balance at April 10, 2015	$ -	$ -	$ -
Transfer from Plan of Arrangement (note 3)	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
Balance at January 1, 2016	$ 3,778,347	$ 183,335	$ 3,961,682
Additions for period	46,764	10,000	56,764
Balance at March 31, 2016	$ 3,825,111	$ 193,335	$ 4,018,446
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
Balance at January 1, 2016	$ 200,625	$ 42,308	$ 242,933
Depreciation for the period	107,540	21,404	128,944
Balance at March 31, 2016	$ 308,165	$ 63,712	$ 371,877

(in U.S. dollars)

Net book value, December 31, 2015	**$**	**3,577,722**	**$**	**141,027**	**$**	**3,718,749**
Net book value, March 31, 2016	**$**	**3,516,946**	**$**	**129,623**	**$**	**3,646,569**

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 3). 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.

5. LOAN AGREEMENTS

On March 8, 2016, the Company entered into two separate Loan Agreements with Dr. James Young, Chairman of the Board, and Satellite Overseas (Holdings) Limited, a majority shareholder, for an aggregate amount of $2 million. Each loan agreement provides for the issuance of a promissory note ("Note(s)") by TMS of $1,000,000. The Notes mature two years from the date of issuance and bear 3% interest compounded 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 Notes in whole or in part without penalty, fees or charges.

As the conversion option is not for a fixed number of the Company's common stock, the loans are not considered a compound instrument. The conversion option is a embedded derivative liability which is measured first with the remainder of the fair value of the instrument allocated to the loan payable. The conversion option is revalued at each reporting period until the end the maturity of the Notes with changes recorded as profit or loss in the Condensed Interim Consolidated Statement of Comprehensive Loss. The loan payable is accreted to the face value over the term of the loan.

Loans payable at inception	$	543,280
Accretion in period		96,123
Loans payable at March 31, 2016	$	639,403

Conversion option at inception	$	1,456,720
Change in conversion option fair value in period		92,386
Loan balance at March 31, 2016	$	1,549,106

Interest expense of $1,890 was accrued for the three months ended March 31, 2016.

6. 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 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 condensed interim consolidated financial statements for the three months ended March 31, 2016.

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 condensed interim consolidated financial statements for the three months ended March 31, 2016.

(in U.S. dollars)

7. DERIVATIVE FINANCIAL LIABILITIES

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 and recorded the instruments at fair value with mark-to-market adjustments at each reporting period recorded in the Condensed Interim 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:

Balance, April 10, 2015	$	-
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
Balance, January 1, 2016	$	452,652
Fair value increase (decrease) in liability at end of period		(274,794)
Balance, March 31, 2016	$	177,858

7. DERIVATIVE FINANCIAL LIABILITIES (continued)

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

	March 31, 2016
Expected life	1.29 years
Expected volatility	132.3%
Expected dividend yield	0%
Estimated forfeiture rate	0%
Risk-free interest rate	0.53%
Weighted average share price (C$)	$0.63

8. 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 35,900,010 post-consolidation (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.

Three months ended March 31, 2016

There was no activity during this period.

(in U.S. dollars)

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 common shares to investors at C$0.75 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 Comprehensive Loss for the period ended December 31, 2015.

(c) Warrants

Three months ended March 31, 2016

During the period 5,085,506 warrants with January 31, 2016 expiry dates expired unexercised.

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 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 March 31, 2016. All warrants are exercisable.

Warrants Outstanding	Exercise Price	Expiry Date
20,000	$1.30 CAD	May 24, 2016
462,959	$1.30 CAD	May 31, 2016
207,563	$1.75 CAD	May 31, 2016
202,348	$1.50 USD	November 26, 2016
604,400	$2.25 CAD	October 21, 2018
1,497,270		

8. SHARE CAPITAL (continued)

(c) Warrants

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

	Number		Weighted average exercise price (C$)
Outstanding, April 10, 2015	-		-
Warrants transferred on May 21, 2015	6,582,776	$	1.20
Balance, December 31, 2015	**6,582,776**	$	1.20
Balance, January 1, 2016	**6,582,776**		1.20
Expired	**(5,085,506)**		1.36
Balance, March 31, 2016	**1,497,270**	$	1.73

(in U.S. dollars)

(d) Stock options

The following table summarizes the changes in stock options and information about the Company's stock options outstanding at March 31, 2016:

	Number of options		Weighted Average Exercise Price (C$)
Outstanding, April 10, 2015	**-**		-
Granted (1)(2)	3,245,000	$	0.75
Exercised	-		-
Forfeited	(75,000)		0.75
Outstanding, December 31, 2015	**3,170,000**	$	0.75
Exercisable, December 31, 2015	**1,594,375**	$	0.75
At January 1, 2016	3,170,000	$	0.75
Granted (3)	250,000	$	0.76
Exercised	-		-
Forfeited	(45,000)		0.75
Outstanding, March 31, 2016 (4)	**3,375,000**	$	0.75
Exercisable, March 31, 2016	**2,283,750**	$	0.75

(1) There were 2,985,000 stock options granted to employees for the period ended December 31, 2015, which are exercisable at C$0.75 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 vest over one year and the remainder vest over 22 months. There were 140,000 stock options granted to employees for the period ended December 31, 2015, which are exercisable at C$0.85 per option, expire in September 2020, and had a total fair value of $73,891 (C$97,661).

(2) There were 120,000 stock options granted to non-employees for the period ended December 31, 2015, which are exercisable at C$0.75 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) There were 50,000 stock options granted to employees in the three months ended March 31, 2016, which are exercisable at C$0.80 per option, expire in January 2021, vest over 24 months, and had a total fair value of $26,469 (C$37,269) at the date of grant. There were 200,000 stock options granted to a consultant in the three months ended March 31, 2016, which are exercisable at C$0.75 per option, expire in February 2019, vest immediately and had a total fair value of $71,525 (C$99,634) at the date of grant.

(4) The remaining contractual life in years for the stock options granted is 4.1 years at March 31, 2016.

For the three months ended March 31, 2016, total share-based compensation related to stock options was $239,560 (March 31, 2015 - nil) which was included as share-based compensation in the Condensed Interim Consolidated Statement of Comprehensive Loss. The weighted average fair value of stock options granted during the three months ended March 31, 2016 of C$0.55 per option (2015 - no grants) was calculated as of the date of grant using the Black-Scholes option pricing model using the following assumptions and inputs:

Expected life - years	**3.4**
Expected volatility	**141%**
Expected dividend yield	**0%**
Estimated forfeiture rate	**0%**
Risk-free interest rate	**0.55%**
Weighted average share price (C$)	**$0.69**

(in U.S. dollars)

8. SHARE CAPITAL (continued)

(e) Restricted share units ("RSUs")

The Company issued 800,000 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 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 three months ended March 31, 2016, a total of $102,392 was recorded as share-based compensation associated with the vesting of these RSUs (period ended December 31, 2015 - $238,914).

At March 31, 2016, there were 800,000 RSUs outstanding.

(f) Performance share units ("PSUs")

The Company granted 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.

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. The number of shares expected to vest based on the simulation was 240,436 at grant date.

The total share-based compensation expense included in the Condensed Interim Consolidated Statement of Loss relating to PSUs for the three months ended March 31, 2016 was $24,395. 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 March 31, 2016, there were 500,000 PSUs outstanding.

9. RELATED PARTY TRANSACTIONS

The Company's related parties include its subsidiaries and key management personnel. As at March 31,2016, the Company owed a total of $32,500 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. During the three months ended March 31, 2016, the Company entered into loan agreements with related parties (note 5).

10. SEGMENTED INFORMATION

The Company operates in one industry segment, being its microwave technology. At March 31, 2016, the Company held all its non-current assets in the USA.

(in U.S. dollars)

11. FINANCIAL INSTRUMENTS AND RISKS

(a) Fair value information

As at March 31, 2016, the Company's financial instruments consist of cash, receivables, accounts payable and accrued liabilities, loans payable and derivative liabilities. With the exception of loans payable and the derivative liabilities, the carrying values of these financial instruments approximate their fair values because of their current nature.

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

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 three months ended March 31, 2016, the Company had derivative liabilities that were required to be recorded at fair value using level 3 inputs (see notes 5, 7). There were no transfers in or out of Level 3 in the period aside from the addition of the conversion option derivative liability.

(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	December 31, 2015
Accounts payable and accrued liabilities	$ 94,630	$ -	$ -	$ 94,630	$ 251,680
Minimum rental and lease payments (1)	104,736	559,994	797,165	1,461,895	1,485,558
	$ 199,366	$ 559,994	$ 797,165	$ 1,556,525	$ 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.

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.

12. SUBSEQUENT EVENT

On May 16, 2016, the Company announced that it received final approval from the Toronto Stock Exchange - Venture ("TSX-V") for the listing of the Company's common shares for trading on the TSX-V. The Company'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 the Company's common shares on the TSX-V, its common shares will no longer trade on the CSE and were voluntarily delisted from the CSE upon commencement of trading on the TSX-V.