Condensed Interim Consolidated Financial Statements
(Unaudited)

For the three months ended March 31, 2017

(in U.S. dollars)

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.

Targeted Microwave Solutions Inc.

Consolidated Statements of Financial Position

(in U.S. Dollars)

(Unaudited)

	Note	At March 31, 2017	At December 31, 2016
ASSETS			
Current			
Cash		$ 297,563	$ 1,226,273
Receivables		71,501	76,384
Prepaid expenses		82,971	53,355
		452,035	1,356,012
Property and equipment	3	3,957,756	4,094,541
Deposit		15,048	15,048
Total assets		$ 4,424,839	$ 5,465,601
LIABILITIES			
Current			
Accounts payable and accrued liabilities		$ 397,389	$ 354,901
Derivative liability		9,290	38,840
Deferred rent		57,161	55,458
		463,840	449,199
Loans payable	4	1,700,364	1,600,034
Total liabilities		2,164,204	2,049,233
SHAREHOLDERS' EQUITY			
Share capital	5	8,628,889	8,628,889
Share-based payment reserve		3,972,969	3,567,968
Deficit		(10,304,326)	(8,746,244)
Equity attributable to TMSI shareholders		2,297,532	3,450,613
Non-controlling interest		(36,897)	(34,245)
Total equity		2,260,635	3,416,368
Total liabilities and shareholders' equity		$ 4,424,839	$ 5,465,601

Going Concern – Note 2

Subsequent events – Note 9

Approved on behalf of the Board:

"Dr. James Young"
Director

"Dr. Stephen D. Crocker"
Director

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

Targeted Microwave Solutions Inc.

Consolidated Statements of Comprehensive Loss

(in U.S. dollars)

(Unaudited)

	Note	Three months ended March 31, 2017		Three months ended March 31, 2016
Expenses				
Site supplies, services and other		$ 63,488	$	66,279
Plant and equipment depreciation	3	174,694		128,944
Consulting, management and director fees		240,621		190,713
Foreign exchange loss (gain)		(13,114)		(105,398)
Office, rent and other		137,716		152,197
Investor relations, filing and compliance fees		77,963		32,107
Professional fees		69,949		39,149
Salaries		285,824		217,011
Share-based compensation	5 (d-f)	405,001		366,347
Interest expense	4	100,330		21,910
Travel and promotion		47,815		27,091
Loss before other items		1,590,287		1,136,350
Other (income) expenses				
Interest income		(3)		(1,842)
Other expense		-		(60,192)
Fair value change in derivative liability		(29,550)		(274,795)
		(29,553)		(336,829)
Comprehensive and net loss		$ 1,560,734	$	799,521
Earnings (loss) per share, basic and diluted		$ (0.03)	$	(0.02)
Weighted average number of common shares outstanding				
Basic and diluted		46,820,010		36,820,010

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

Targeted Microwave Solutions Inc.
Consolidated Statements of Cash Flows
(in U.S. dollars)
(Unaudited)

		Three months ended March 31,	
	Note	2017	2016
Cash provided by (used in):			
Operating Activities			
Net loss for the period		$ (1,560,734)	$ (799,521)
Items not involving cash:			
Share-based compensation	5(d-f)	405,001	366,347
Depreciation	3	174,694	128,944
Interest expense	4	100,330	21,910
Fair value change in derivative liability		(29,550)	(274,795)
		(910,259)	(557,115)
Change in non-cash working capital:			
Receivables		4,883	(16,938)
Prepaid expenses		(29,616)	1,148
Accounts payable and accrued liabilities		42,488	(158,940)
Deferred rent		1,703	25,014
		(890,801)	(706,831)
Investing Activities			
Purchase of property and equipment	3	(37,909)	(56,764)
		(37,909)	(56,764)
Financing Activities			
Loan proceeds	4	-	2,000,000
		-	2,000,000
Increase (decrease) in cash		(928,710)	1,236,405
Cash, beginning of period		1,226,273	2,149,070
Cash, end of period		$ 297,563	$ 3,385,475

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

Targeted Microwave Solutions Inc.

Consolidated Statements of Changes in Shareholders' Equity

(in U.S. dollars)
(Unaudited)

	Note	Shares	Amount	Share-based payment reserves	Deficit	Attributable to TMSI Shareholders	Non-controlling interest	Total
Balance - January 1, 2017		46,820,010	$ 8,628,889	$ 3,567,968	$ (8,746,244)	$ 3,450,613	$ (34,245)	$ 3,416,368
Restricted share units issued and vested	5(e)	-	-	17,722	-	17,722	-	17,722
Share-based compensation	5(d-f)	-	-	387,279	-	387,279	-	387,279
Loss for the period		-	-	-	(1,558,082)	(1,558,082)	(2,652)	(1,560,734)
Balance, March 31, 2017		46,820,010	$ 8,628,889	$ 3,972,969	$ (10,304,326)	$ 2,297,532	$ (36,897)	$ 2,260,635

	Note	Shares	Amount	Share-based payment reserves	Deficit	Attributable to TMSI Shareholders	Non-controlling interest	Total
Balance - January 1, 2016		36,820,010	$ 6,980,547	$ 1,603,005	$ (3,298,067)	$ 5,285,485	$ -	$ 5,285,485
Restricted share units issued and vested		-	-	102,392	-	102,392	-	102,392
Share-based compensation	5(d)	-	-	263,955	-	263,955	-	263,955
Loans payable off market	4	-	-	697,502	-	697,502	-	697,502
Loss for the period		-	-	-	(799,521)	(799,521)	-	(799,521)
Balance, March 31, 2016		36,820,010	$ 6,980,547	$ 2,666,854	$ (4,097,588)	$ 5,549,813	$ -	$ 5,549,813

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

1. NATURE OF OPERATIONS

Targeted Microwave Solutions Inc. is the ultimate parent company of its consolidated group, ("TMS" or "the Company"). 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 has a research and development office in Gaithersburg, Maryland.

The Company is a reporting issuer in the provinces of Alberta, British Columbia (“B.C.”) and Ontario and the Company's shares are listed for trading on the Toronto Stock Exchange - Venture (“TSX-V”) under the symbol "TMS". The company is also listed on the OTCQX under the symbol "TGTMF".

The Company's head office is located at Suite 2300, 1066 West Hastings Street, Vancouver, B.C., Canada, V6E 3X2. The registered and records office is located at Suite 1000, 925 West Georgia Street, Vancouver, B.C., 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, 2016.

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, 2016.

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 XX, 2017.

Going Concern

These consolidated financial statements were prepared on a going concern basis. The Company’s ability to continue as a going concern is dependent upon its ability to continue to raise financing and to commence earning revenues from contracts. As of March 31, 2017, the Company has accumulated losses of $10,341,223 since inception, has no source of operating revenues and expects to incur further losses in the development of its business. For the three months ended March 31, 2017, the Company incurred a loss of $1,560,287. These material uncertainties may cast significant doubt upon the Company’s ability to continue

(in U.S. dollars)

2. BASIS OF PREPARATION (continued)

as a going concern. Realization values may be substantially different from the carrying values shown and these consolidated financial statements do not give effect to adjustments that would be necessary to the carrying values and classification of assets and liabilities should the Company be unable to continue as a going concern. The Company will periodically have to raise funds to continue operations and, although it has been successful in doing so in the past, there is no assurance it will be able to do so in the future.

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 ended March 31, 2017, the Company applied the critical judgements and estimates disclosed in note 4 of its audited consolidated financial statements for the year ended December 31, 2016.

3. PROPERTY AND EQUIPMENT

Cost		Plant & Equipment		Leasehold Improvements		Total
Balance at January 1, 2017	$	4,728,359	$	194,535	$	4,922,894
Additions for period		37,909		-		37,909
Balance at March 31, 2017	**$**	**4,766,268**	**$**	**194,535**	**$**	**4,960,803**
Accumulated amortization						
Balance at January 1, 2017	$	700,399	$	127,954	$	828,353
Depreciation for the period		153,290		21,404		174,694
Balance at March 31, 2017	**$**	**853,689**	**$**	**149,358**	**$**	**1,003,047**
Net book value, March 31, 2017	**$**	**3,912,579**	**$**	**45,177**	**$**	**3,957,756**
Net book value, December 31, 2016	$	4,027,960	$	66,581	$	4,094,541

4. LOAN AGREEMENTS

On March 8, 2016, the Company entered into two separate Loan Agreements with Dr. James Young, Chairman of the Board and Chief Executive Officer (“CEO”) as of November 29, 2016, and Satellite Overseas (Holdings) Limited (“SOHL”), a majority shareholder, for an aggregate amount of $2,000,000.

(in U.S. dollars)

4. LOAN AGREEMENTS (continued)

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 interest at 3% per annum compounded annually with all principal and interest due on maturity of the Notes. The interest rate per the Notes is not considered to be on normal commercial terms and as such the Notes are considered to be issued at below-market interest rates. See Note 9 for Subsequent Event.

At inception the Notes were split between: (a) the fair value of the Notes determined by discontinuing future cash payments at an estimated discount rate for similar instruments and; (b) the residual below-market element, which represents the benefit to shareholders' of the Company of paying interest on an instrument at a below-market interest rates. The difference between the fair value of the loan at inception and the proceeds, which is considered the below-market element, was credited to share-based payment reserve on the Consolidated Statement of Shareholders' Equity for the year ended December 31, 2016.

The Notes are accreted to the face value over the term of the agreement and this amount is included in interest expense in the Consolidated Statements of Comprehensive Income. The following is a continuity of the Notes from inception to March 31, 2017.

Face value of Notes	$	2,000,000
Less: Below-market interest rates element		(697,502)
Fair value of Notes at inception		1,302,498
Add: Accretion in the period		248,550
Add: Accrued interest in period		48,986
Loans payable at December 31, 2016	$	1,600,034
Loans payable at January 1, 2017		1,600,034
Add: Accretion in the period		85,417
Add: Accrued interest in period		14,913
Loans payable at March 31, 2017	$	1,700,364

At March 31, 2017, accrued interest of $63,899 is included in the loans payable balance. Interest expense was $100,330 and $21,910 for the three months ended March 31, 2017 and 2016, respectively.

Subject to TSX-V approval, the lenders have the option to convert any portion of the principal and accrued interest to common shares of the Company at the price to be determined. Until such time as the conversion option is registered, the option does not constitute an embedded derivative. The Company may prepay the Notes in whole or in part without penalty, fees or charges.

5. SHARE CAPITAL AND SHARE-BASED PAYMENTS

(a) Authorized: unlimited common shares without par value

(b) Issued and Outstanding

There was no activity during the three months ended March 31, 2017.

(in U.S. dollars)

5. SHARE CAPITAL AND SHARE-BASED PAYMENTS (continued)

(c) Warrants

At March 31, 2017 and December 31, 2016, there were 604,400 warrants outstanding and exercisable with an exercise price of C$2.25 and expiry date of October 21, 2018.

(d) Stock options

In January 2017, the Company granted 2,351,300 stock options to purchase common shares of the Company, exercisable on or before January 5, 2022, with an exercise price of C$0.33 per share to certain directors, officers and employees of the Company. The grants had an estimated fair value of $514,860 (C$691,729) at the date of grant. The grant of these options is subject to regulatory approvals and, in the case of certain of the options, shareholder approval at the next annual general meeting of the Company in respect of an increase in the maximum number of shares that may be reserved for issuance under the Plan.

At March 31, 2017, 7,691,300 stock options were outstanding at a weighted average exercise price of C$0.55, of which 5,374,075 are exercisable at a weighted average price of C$0.61 per option. There were no exercises, forfeitures or cancellations of stock options in the three months ended March 31, 2017.

For the three months ended March 31, 2017, total share-based compensation expense related to stock options was $320,548 (2016 - $239,560) which was included in the Consolidated Statements of Comprehensive Loss. The weighted average fair value of stock options granted during the three months ended of C$0.29 per stock option was calculated as of the date of grant using the Black-Scholes option pricing model using the following weighted average assumptions and inputs. Expected life in years is equivalent to the life of the options and expected volatility is based on both the Company’s trading history and also, given the limited trading history of the Company, the historical volatility of similar companies with adequate trading history.

Expected life - years	5
Expected volatility	132%
Expected dividend yield	0%
Risk-free interest rate	1.19%
Weighted average share price (C$)	$0.33

(e) Restricted share units (“RSUs”)

At March 31, 2017 and December 31, 2016 there were 966,666 RSUs outstanding. For the three months ended March 31, 2017 and 2016, a total of $17,722 and $102,392 was recorded as share-based compensation expense associated with the vesting of which was included in the Consolidated Statements of Comprehensive Loss.

(f) Performance share units (“PSUs”)

At March 31, 2017 and December 31, 2016, there were 700,000 PSUs outstanding. For the three months ended March 31, 2017 and 2016, a total of $66,731 and $24,395 was recorded as share-based compensation expense associated with the vesting of which was included in the Consolidated Statements of Comprehensive Loss.

(in U.S. dollars)

6. RELATED PARTY TRANSACTIONS

(a) Related party transactions

The Company's related parties include its subsidiaries and key management personnel. At March 31, 2017, the Company owed a total of $174,546 (December 31, 2016 - $63,787) to officers and directors which were included in accounts payable and accrued liabilities. These amounts were unsecured, non-interest bearing and have no fixed terms of repayment.

The Company received loans from related parties (Note 4) and owed a total of $2,063,899 of principal and accrued interest at (December 31, 2016 - $2,048,966).

7. SEGMENTED INFORMATION

The Company operates in one industry segment, being its microwave technology. At March 31, 2017, the Company held all its non-current assets in the USA.

8. FINANCIAL INSTRUMENTS AND RELATED RISKS

The Company's financial instruments consist of cash, receivables, accounts payable and accrued liabilities, loans payable and derivative liabilities.

(a) Fair value of financial instruments

Assets and liabilities that are held at fair value are categorized based on a valuation hierarchy which is determined by the valuation methodology utilized:

Recurring measurements	Level 1	Level 2	Level 3	At March 31, 2017
Cash	$ 297,563	$ -	$ -	$ 297,563
Receivables	12,708	$ -	$ -	12,708
Accounts payable and accrued liabilities	-	397,389	-	397,389
Derivative liabilities	-	-	9,290	9,290
	$ 310,271	$ 397,389	$ 9,290	$ 716,950

Recurring measurements	Level 1	Level 2	Level 3	At December 31, 2016
Cash	$ 1,226,273	$ -	$ -	$ 1,226,273
Receivables	3,333	-	-	3,333
Accounts payable and accrued liabilities	-	354,901	-	354,901
Derivative liabilities	-	-	38,840	38,840
	$ 1,229,606	$ 354,901	$ 38,840	$ 1,623,347

At March 8, 2016, the fair value of the loans payable was measured and recognized on a non-recurring basis. There were no transfers in or out of Level 3 in the three months ended March 31, 2017.

8. FINANCIAL INSTRUMENTS AND RELATED RISKS (continued)

(b) Financial instruments and related risks

The Company is exposed to a variety of financial risks as a result of operations, including market risk, credit risk and liquidity risk. The Company's exposures to financial risks and how the Company manages each of those risks are described in note 14 to the Company's consolidated financial statements for the year ended December 31, 2016. There were no significant changes in the Company's exposures to those risks or to the Company's management of its exposures during the three months ended March 31, 2017. See Note 9, Subsequent Events, for change occurring after the reporting period.

9. SUBSEQUENT EVENTS

(a) **Loan Financing**

On May 12, 2017, the Company secured a loan of approximately $350,000 from a significant shareholder, SOHL to provide short-term working capital as it continues to pursue commercialization and explore financing opportunities. In connection with this loan, the previous Loan Agreement dated March 8, 2016 from SOHL was amended. The Amended Loan Agreement increases the aggregate principal amount under the loan to $1,350,000. The loan matures December 31, 2017 and accrues interest at 8% per annum from the date of advance of the initial loan, calculated semi-annually.

(b) **Cost cutting measures**

On May 8, 2017, the Company announced that the TMS Board approved the initiative of a comprehensive cost reduction plan. As part of this plan TMS expects to immediately eliminate 8 positions and substantially reduce general and administrative costs.