



Consolidated Financial Statements

For the years ended December 31, 2022 and 2021



DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED PROFESSIONAL ACCOUNTANTS

Independent Auditor's Report

To the Shareholders of Targeted Microwave Solutions Inc.,

Opinion

We have audited the consolidated financial statements of Targeted Microwave Solutions Inc. (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2022 and 2021 and the consolidated statements of comprehensive loss, cash flows and changes in equity for the years ended December 31, 2022 and 2021, and notes to the financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2022 and 2021, and its financial performance and its cash flows for the years ended December 31, 2022 and 2021 in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 2 to the financial statements, which describes matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters, that in our professional judgment, were of most significance in our audit of the financial statements of the current year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Except for the matter described in the Material Uncertainty Related to Going Concern section, we have determined that there are no other key audit matters to communicate in our report.

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Other Information

Management is responsible for the other information. The other information comprises the information included in Management's Discussion and Analysis.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Barry Hartley.

A handwritten signature in black ink, appearing to read "DMCL.", is positioned above the firm's name.

DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED PROFESSIONAL ACCOUNTANTS
Vancouver, BC

April 17, 2023

Targeted Microwave Solutions Inc.
Consolidated statements of financial position

As at December 31, 2022 and 2021

Expressed in U.S. Dollars

	December 31, 2022	December 31, 2021
ASSETS		
Current		
Cash	\$ -	\$ 57
Sales tax receivable	3,993	2,613
Total assets	\$ 3,993	\$ 2,670
LIABILITIES		
Current		
Accounts payable (note 7)	\$ 200,399	\$ 170,103
Accrued liabilities	37,350	33,672
Loan payable (notes 5 and 7)	150,460	150,460
Total liabilities	388,209	354,235
SHAREHOLDERS' EQUITY		
Share capital (note 6)	11,858,641	11,858,641
Share-based payment reserve (note 6)	4,094,987	4,094,987
Accumulated deficit	(16,296,315)	(16,263,664)
Equity attributable to shareholders of the company	(342,687)	(310,036)
Non-controlling interest	(41,529)	(41,529)
	(384,216)	(351,565)
Total liabilities and shareholder's equity	\$ 3,993	\$ 2,670

Going concern (note 2c)

Approved on behalf of the Board:

 "Gurminder Sangha"
 Director

 "Lyle McLennan"
 Director

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

Targeted Microwave Solutions Inc.
Consolidated statements of comprehensive loss
For the years ended December 31, 2022 and 2021
Expressed in U.S. dollars, except number of shares

	For the year ended December 31	
	2022	2021
Expenses		
Foreign exchange (gain) loss	\$ (9,589)	\$ 1,235
Office, administration and other	16,279	16,879
Investor relations, filing and compliance fees	7,203	7,434
Professional fees	18,758	17,003
Net loss and comprehensive loss	\$ 32,651	\$ 42,551
Net loss and comprehensive loss attributable to:		
Shareholders of the company	\$ 32,651	\$ 42,551
Non-controlling interest	-	-
Net loss and comprehensive loss	\$ 32,651	\$ 42,551
Loss per share, basic and diluted	\$ (0.00)	\$ (0.00)
Weighted average number of shares outstanding		
Basic and diluted	128,024,439	128,024,439

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

Targeted Microwave Solutions Inc.
Consolidated statements of cash flows
For the years ended December 31, 2022 and 2021
Expressed in U.S. dollars

	For the year ended December 31	
	2022	2021
Cash provided by (used in):		
Operating Activities		
Net loss	\$ (32,651)	\$ (42,551)
Changes in non-cash working capital:		
Sales tax receivable	(1,380)	(256)
Accounts payable and accrued liabilities	33,974	40,793
Net cash used in operating activities	(57)	(2,014)
Net decrease in cash	(57)	(2,014)
Cash, beginning of year	57	2,071
Cash, end of year	\$ -	\$ 57

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

Targeted Microwave Solutions Inc.**Consolidated statements of changes in equity**

As at December 31, 2022 and 2021

Expressed in U.S. dollars, except number of shares

	Shares	Amount	Share-based payment reserves	Deficit	Attributable to company shareholders	Non- controlling interest	Total
Balance, January 1, 2021	128,024,439	\$11,858,641	\$ 4,094,987	\$ (16,221,113)	\$ (267,485)	\$ (41,529)	\$ (309,014)
Net and comprehensive loss for the year	-	-	-	(42,551)	(42,551)	-	(42,551)
Balance, December 31, 2021	128,024,439	\$11,858,641	\$ 4,094,987	\$ (16,263,664)	\$ (310,036)	\$ (41,529)	\$ (351,565)
Balance, January 1, 2022	128,024,439	\$11,858,641	\$ 4,094,987	\$ (16,263,664)	\$ (310,036)	\$ (41,529)	\$ (351,565)
Net and comprehensive loss for the year	-	-	-	(32,651)	(32,651)	-	(32,651)
Balance, December 31, 2022	128,024,439	\$11,858,641	\$ 4,094,987	\$ (16,296,315)	\$ (342,687)	\$ (41,529)	\$ (384,216)

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

1. NATURE OF OPERATIONS

Targeted Microwave Solutions Inc. (the “Company” or “TMS”) was incorporated on April 10, 2015 under the British Columbia Business Corporation Act and is domiciled in Canada. The Company is a reporting issuer in the provinces of Alberta, British Columbia and Ontario. The Company's shares are listed for trading on the NEX board of the Toronto Stock Exchange, Venture (“TSX-V”) under the Tier 2 symbol “TMS.H”. The Company's head office is located at 200 - 375 Water Street, Suite 8277, Vancouver, BC, Canada, V6B 0M9. The registered and records office is located at Suite 1000, 925 West Georgia Street, Vancouver, BC, Canada, V6C 3L2.

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 environment harming emissions. The technology has specific application to mass-scale use of industrial aggregates, energy producing biomass, low-rank coals and other materials for use by power utilities and industrial companies. The Company formerly completed the construction and commissioning of a commercial scale pilot plant facility (“King William Plant”) located in King William, Virginia, USA where it previously tested advances in research and development of its microwave-based technology. The Company disposed of the King William Plant in June of 2018. The Company had a research and development office in Gaithersburg, Maryland, which was closed in July of 2017.

2. BASIS OF PREPARATION

(a) Statement of compliance

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

These consolidated financial statements were approved by the Board of Directors and authorized for issue on April 17, 2023.

(b) Basis of measurement

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

(c) 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 set a viable path forward since the Company has terminated all employees, closed its US offices and disposed of the King William Plant and related assets.

The Company has incurred operating losses, working capital deficits, negative operating cash flows and an accumulated deficit as outlined in the table below. Since inception, the Company had no source of operating revenues and expects to incur further losses as it identifies a viable path forward. These material uncertainties may cast significant doubt upon the Company's ability to continue as a going concern. Realization values may be substantially different from the carrying values shown. 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. Such adjustments could be material. The Company will 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.

Targeted Microwave Solutions Inc.
Notes to the consolidated financial statements
For the years ended December 31, 2022 and 2021
Expressed in U.S. dollars, except number of shares

As of December 31, 2022, and 2021, the Company reported the following:

	December 31, 2022	December 31, 2021
Net loss for the year	\$ (32,651)	\$ (42,551)
Working capital deficit	\$ (384,216)	\$ (351,565)
Accumulated deficit	\$ (16,296,315)	\$ (16,263,664)

(d) Functional currency and presentation currency

These consolidated financial statements are presented in United States dollars ("US dollars"), the Company's presentation currency. The functional currency of the Company and all of its subsidiaries is the US dollar.

(e) Critical accounting judgements, estimates and assumptions

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

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

i. Functional currency

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

ii. Contingencies

Due to the nature of the Company's operations, various legal matters can arise from time to time. In the event that management's estimate of the future resolution of these matters changes, the Company will recognize the effects of the changes in its consolidated financial statements for the period in which such changes occur.

iii. Provisions

Management's judgment is required to determine amounts to be recognized for liabilities of uncertain timing or amounts that have arisen as a result of past transactions. Provisions are the best estimate of the expenditure required to settle the obligation at the reporting date.

iv. Going concern

Management has applied judgments in the assessment of the Company's ability to continue as a going concern when preparing its consolidated financial statements for the year ended December 31, 2022. Management prepares the consolidated financial statements on a going concern basis unless management either intends to liquidate the

entity or to cease trading, or has no realistic alternative but to do so. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but is not limited to, twelve months from the end of the reporting period. Management considered a wide range of factors relating to debt repayment schedules and potential sources of financing. As a result of the assessment, management concluded the going concern basis of accounting is appropriate based on cash flow forecasts and potential access to financing for the future twelve months.

v. Income taxes

Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Company recognizes liabilities and contingencies for anticipated tax audit issues based on the Company's current understanding of the tax law. For matters where it is probable that an adjustment will be made, the Company records its best estimate of the tax liability including the related interest and penalties in the current tax provision. Management believes they have adequately provided for the probable outcome of these matters; however, the final outcome may result in a materially different outcome than the amount included in the tax liabilities.

In addition, the Company recognizes deferred tax assets relating to tax losses carried forward to the extent there are sufficient taxable temporary differences (deferred tax liabilities) relating to the same taxation authority and the same taxable entity against which the unused tax losses can be utilized. However, utilization of the tax losses also depends on the ability of the taxable entity to satisfy certain tests at the time the losses are recouped.

3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies used in the preparation of these consolidated financial statements are as follows:

(a) Basis of consolidation

These consolidated financial statements include the accounts of the Company and the its subsidiaries. Subsidiaries are entities controlled by the Company. Control exists when the Company has power over an investee, when the Company is exposed, or has rights, to variable returns from the investee and when the Company has the ability to affect those returns through its power over the investee.

Subsidiaries are included in the consolidated financial results of the Company from the effective date of acquisition up to the effective date of disposition or loss of control. All intercompany transactions and balances have been eliminated. The principal subsidiaries of the Company and geographic locations at December 31, 2022 were as follows:

	Country of Incorporation	Ownership Interest	Functional Currency
Targeted Microwave Solutions USA Inc.	USA	100%	US Dollars
TMS-MD, Inc.	USA	100%	US Dollars
Targeted Microwave Solutions Hong Kong Limited	Hong Kong	51%	US Dollars

(b) Non-controlling interest

Non-controlling interest, presented as part of equity, represents the portion of a subsidiary's profit or loss and net assets that is not held by the Company. The Company attributes total comprehensive income or loss of subsidiaries between the shareholders of the parent and the non-controlling interests based on their respective ownership interests.

(c) Functional currency translation

The functional currency of the parent entity and its subsidiaries is the US dollar. The presentation currency of the consolidated financial statements is the US dollar. Accordingly, in preparing the financial statements of each

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

(d) Income taxes

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

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

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

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

(e) Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one party and a financial liability or equity instrument of another party. Financial assets of the Company include cash. Financial liabilities of the Company include accounts payable and loans payable.

Classification

The following table outlines the classification of the Company's financial instruments:

Financial assets/liabilities	
Cash	FVTPL
Accounts payable	Amortized cost
Loan payable	Amortized cost

Measurement

Financial assets and liabilities at amortized cost

Financial assets and liabilities at amortized cost are initially recognized at fair value plus or minus transaction costs, respectively, and subsequently carried at amortized cost less any impairment.

Financial assets and liabilities at FVTPL

Financial assets and liabilities carried at FVTPL are initially recorded at fair value and transaction costs are expensed in the statements of loss and comprehensive loss. Realized and unrealized gains and losses arising from changes in the fair value of the financial assets and liabilities held at FVTPL are included in the statements of loss and comprehensive loss in the period in which they arise.

Debt investments at FVOCI

These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognized in profit or loss. Other net gains and losses are recognized in other comprehensive income ("OCI"). On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.

Equity investments at FVOCI

These assets are subsequently measured at fair value. Dividends are recognized as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognized in OCI and are never reclassified to profit or loss.

Impairment of financial assets at amortized cost

The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost. At each reporting date, the Company measures the loss allowance for the financial asset at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition. If at the reporting date, the credit risk on the financial asset has not increased significantly since initial recognition, the Company measures the loss allowance for the financial asset at an amount equal to the twelve month expected credit losses. The Company recognize in the statements of loss and comprehensive loss, as an impairment gain or loss, the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognized.

Derecognition

Financial assets

The Company derecognizes financial assets only when the contractual rights to cash flows from the financial assets expire, or when it transfers the financial assets and substantially all of the associated risks and rewards of ownership to another entity.

Financial liabilities

The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expire. The Company also derecognizes a financial liability when the terms of the liability are modified such that the terms and / or cash flows of the modified instrument are substantially different, in which case a new financial liability based on the modified terms is recognized at fair value.

Gains and losses on derecognition are generally recognized in profit or loss.

(f) Share capital

The Company's common shares and share options are classified as equity instruments to the extent they do not meet the definition of a financial liability. Common shares issued in the Company's equity are recorded at the net proceeds received which is the fair value of the consideration received less costs incurred in connection with the issue.

(g) Share based payments

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date using the Black-Scholes option pricing model.

The fair value is estimated at grant date and each tranche is recognized on a graded-vesting basis over the period the options vest. At the end of each reporting period, the Company revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognized in comprehensive loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to contributed surplus.

Equity-settled share-based payment transactions with parties other than employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

(h) Basic and diluted earnings or loss per share

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

4. RECENT ACCOUNTING PRONOUNCEMENTS

Amendments to IAS 1, Classification of Liabilities as Current or Non-current

On January 23, 2020, the IASB issued amendments to IAS 1, Presentation of Financial Statements, to clarify the classification of liabilities as current or non-current. On July 15, 2020, the IASB issued an amendment to defer the effective date by one year. The amendments are effective for annual periods beginning on or after January 1, 2023. Early adoption is permitted. The application of this standard is not expected to have an impact for the Company.

5. LOAN PAYABLE

The following is a continuity of the Company's loans as at December 31, 2021 and 2022:

		Total
Loan payable at December 31, 2021 and 2022	\$	150,460

The loan bears no interest, is unsecured and is repayable on demand (note 7).

6. SHARE CAPITAL AND SHARE-BASED PAYMENTS

(a) Authorized

The Company has unlimited common shares without par value authorized.

(b) Issued and outstanding

There was no activity during the year ended December 31, 2021 and 2022.

(c) Share-based payment reserve

The share-based payment reserve records items recognized as stock-based compensation expense and other share-based payments until such time that the stock options or warrants are exercised, at which time the corresponding amount will be transferred to share capital.

7. RELATED PARTY TRANSACTIONS

(a) Related party transactions

The Company's related parties include its subsidiaries, key management personnel and entities owned by shareholders. At December 31, 2022, the Company owed a total of \$95,588 (December 31, 2021 - \$95,588) to an officer which was included in accounts payable. These amounts were unsecured, non-interest bearing and have no fixed terms of repayment.

The Company received loans from related parties and owed a total of \$150,460 of principal and accrued interest at December 31, 2022 (December 31, 2021 - \$150,460) (note 5).

(b) Compensation of directors and other key management personnel

Compensation paid or payable to the Company's directors and key management for services provided during the year ended December 31, 2022 was \$nil for the year-ended December 31, 2022 (December 31, 2021 - \$nil). Key management is defined by the Company as the Chief Executive Officer ("CEO"), Chief Financial Officer ("CFO"), Chief Operating Officer ("COO") and their controlled companies.

8. INCOME TAXES

Analysis of Income Tax Expense

The reconciliation of income taxes, computed at the Canadian statutory rates, to income tax expense was as follows:

	2022	2021
Loss before taxes	\$ (32,651)	\$ (42,551)
Canadian statutory tax rate	27.00%	27.00%
Income tax recovery at statutory tax rate	(8,816)	(11,488)
Increase (decrease) resulting from:		
Jurisdiction tax rate differences	16	17
Changes in estimates	159,796	(10,427)
Non-recognition of tax benefits related to tax losses and temporary differences	(150,996)	21,898
Income tax recovery	\$ -	\$ -

The effective Canadian Federal and British Columbia Provincial corporate tax rate is 15% and 12%, respectively.

Deferred Tax Assets and Liabilities

The significant components of the Company's deferred income tax asset and liability were as follows:

	2022	2021
Non-capital loss carryforwards	\$ 992,196	\$ 1,030,854
Cumulative eligible capital	38,935	43,784
Capital losses	1,562,744	1,669,491
Share issuance costs	-	742
Interest carryforwards	43,757	43,757
	2,637,632	2,788,628
Deferred tax assets not recognized	(2,637,632)	(2,788,628)
Net deferred tax assets	\$ -	\$ -

The deferred tax assets related to the temporary differences were not recognized, as its recoverability is not considered to be probable.

Targeted Microwave Solutions Inc.
Notes to the consolidated financial statements
For the years ended December 31, 2022 and 2021
Expressed in U.S. dollars, except number of shares

As at December 31, 2022, the Company had the following estimated tax operating losses available to reduce future taxable income:

Year of Expiry	Canada	USA	Total
2035	\$ 495,028	\$ -	\$ 495,028
2036	688,311	616,245	1,304,556
2037	182,106	921,298	1,103,404
2038	372,549	3,996	376,545
2039	220,537	2,494	223,031
2040	54,413	4,204	58,617
2041	45,571	4,362	49,933
2042	31,243	4,036	35,279
Total	\$ 2,089,758	\$ 1,556,635	\$ 3,646,393

9. FINANCIAL INSTRUMENTS AND FAIR VALUE MEASUREMENTS

The Company's financial instruments consist of cash, accounts payable and loan payable.

(a) Fair value of financial instruments

The carrying values of cash, accounts payable and loan payable approximate their fair values because of their current nature.

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

Level 1 - Quoted prices in active markets for identical, unrestricted assets or liabilities;

Level 2 – Inputs other than quoted prices in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3 – Inputs for the asset or liability that are not based on observable market data (supported by little or no market activity).

Cash is measured using Level 1 inputs.

10. 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 overall risk management strategy seeks to reduce potential adverse effects on the financial performance. Risk management is carried out under policies approved by the Board of Directors. The risks associated with the financial instruments and the policies on how these risks are mitigated are set out below.

(a) 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 or loans from related parties. The Company has no regular cash flow from its operating activities. The Company manages its liquidity risk by preparing and reviewing forecasted expenditure and cash flow budgets. 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.

The Company had a consolidated cash balance of \$nil as at December 31, 2022 (December 31, 2021 - \$57) with a working capital deficit of \$384,216 (December 31, 2021 – working capital deficit of \$351,565). As such, the

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Company is exposed to liquidity risk. In order to address this liquidity risk, the Company is actively seeking additional financing in the form of debt or equity (or both). Should the Company be unsuccessful in raising funds, it may not be able to satisfy its existing financial obligations or fund future growth.

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 obligations as at December 31, 2022:

	Within 1 year	2 to 5 years	Over 5 years	December 31, 2022	December 31, 2021
Accounts payable	\$ 200,399	\$ -	\$ -	\$ 200,399	\$ 170,103
Accrued liabilities	37,350	-	-	37,350	33,672
Loan repayments	150,460	-	-	150,460	150,460
	\$ 388,209	\$ -	\$ -	\$ 388,209	\$ 354,235

(b) Capital management

The Company's objectives of capital management are to safeguard its ability to support the Company's normal operating requirements on an ongoing basis and support any potential go-forward strategies for the Company. The Company manages its capital structure and make adjustments based on the funds available. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

The Company's operations are currently not generating cash flow, and as such, the Company is dependent on external financing to fund its activities. In order to carry out research and development, which is currently suspended, and fund administrative costs, the Company will use its existing working capital, and raise additional amounts as needed.

Companies in this stage typically rely upon equity and debt financing to fund its operations. There is no certainty with respect to the Company's ability to raise capital.

Management reviews its capital management approach on an ongoing basis. At December 31, 2022, the Company expects that it will be able to meet its obligations based on the Company's ability to obtain funding from related parties. At December 31, 2022, there was no externally imposed capital requirements to which the Company is subject.

(c) Interest rate risk

Interest rate risk is the risk that the fair values or future cash flows of the Company's financial instruments will fluctuate because of changes in market interest rates. Interest rate risk arises from the interest rate impact on cash because these are the only financial instruments that are impacted by interest, based on variable market interest rates. 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.

(d) 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. Cash is held in highly-rated financial institutions and risk of loss is considered to be low. At December 31, 2022, the maximum exposure to credit risk is \$nil (December 31, 2021 - \$57).

(e) Currency risk

Currency risk is the risk that the fair values or future cash flows of financial instruments will fluctuate because of changes in foreign currency rates. Financial instruments are exposed to currency risk where those instruments are

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denominated in currencies that are not the same as the functional currency of the entity that holds them which results in exchange gains and losses which may impact net income or loss.

The Company is exposed to foreign currency risk on fluctuations related to cash, sales tax receivables, accounts payable and accrued liabilities that are denominated in Canadian dollars. The following are the most significant areas of exposure to currency risk, shown in U.S. dollars.

	2022	2021
Cash	\$ -	\$ 57
Sales tax receivable	3,993	2,613
Accounts payable and accrued liabilities	(143,251)	(142,305)
	<u>\$ (139,258)</u>	<u>\$ (139,635)</u>

During the year ended December 31, 2022, the Company recognized a foreign exchange gain of \$9,589 (year ended December 31, 2021 – loss of \$1,235). Management does not hedge its exposure to foreign exchange risk. Management will continue to review its foreign denominated balances to determine the appropriate holdings to naturally hedge its Canadian dollar expenses.

Fluctuations in foreign currency exchange rates can impact marginally on the value of cash, sales tax receivables, accounts payable and accrued liabilities. A 10% variation in the US Dollar would result in a fluctuation of approximately \$14,000 in net loss.