

TORINO POWER SOLUTIONS INC.

Consolidated Financial Statements

Years Ended December 31, 2017 and 2016

(Expressed in Canadian dollars)

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Torino Power Solutions Inc.

We have audited the accompanying consolidated financial statements of Torino Power Solutions Inc., which comprise the consolidated statements of financial position as at December 31, 2017 and 2016 and the consolidated statements of operations and comprehensive loss, changes in equity, and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Torino Power Solutions Inc. as at December 31, 2017 and 2016, and its financial performance and its cash flows for the years then ended, in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 of the consolidated financial statements which indicates the existence of a material uncertainty that may cast significant doubt on the ability of Torino Power Solutions Inc. to continue as a going concern.



Saturna Group Chartered Professional Accountants LLP

Vancouver, Canada

April 29, 2018

TORINO POWER SOLUTIONS INC.
Consolidated Statements of Financial Position
(Expressed in Canadian dollars)

	December 31, 2017 \$	December 31, 2016 \$
Assets		
Current assets		
Cash and cash equivalents	278,314	48,974
Short-term investments (Note 3)	20,000	20,000
Marketable securities (Note 4)	–	72,000
Amounts receivable	42,461	27,295
Prepaid expenses	–	268
Total current assets	340,775	168,537
Non-current assets		
Property and equipment (Note 5)	14,764	13,065
Intangible assets (Note 6)	–	1,582,292
Total non-current assets	14,764	1,595,357
Total assets	355,539	1,763,894
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (Note 8)	58,998	31,556
Total liabilities	58,998	31,556
Shareholders' equity		
Share capital	6,432,725	5,153,973
Share-based payment reserve	508,419	448,654
Deficit	(6,644,603)	(3,870,289)
Total shareholders' equity	296,541	1,732,338
Total liabilities and shareholders' equity	355,539	1,763,894

Nature of operations and continuance of business (Note 1)
Commitment (Note 14)
Subsequent event (Note 17)

Approved and authorized for issuance by the Board of Directors on April 29, 2018:

/s/ "Ravinder Mlait"
Ravinder Mlait, Director

/s/ "Bryan Loree"
Bryan Loree, Director

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

TORINO POWER SOLUTIONS INC.Consolidated Statements of Operations and Comprehensive Loss
(Expressed in Canadian dollars)

	Year ended December 31, 2017 \$	Year ended December 31, 2016 \$
Expenses		
Amortization and depreciation	255,555	252,727
Consulting fees (Note 8)	716,434	389,174
Office and general	72,623	31,929
Impairment of intangible assets (Note 6)	1,337,292	–
Professional fees	13,909	38,057
Rent	40,664	38,808
Research and development costs	232,039	138,008
Share-based compensation (Note 11)	–	200,569
Transfer agent and filing fees	44,997	43,412
Wages and benefits	117,068	167,763
Total expenses	2,830,581	1,300,447
Net loss before other income (expense)	(2,830,581)	(1,300,447)
Other income (expense)		
Gain on sale of exploration and evaluation asset (Note 7)	–	133,200
Gain on settlement of debt (Note 9)	42,273	–
Write-off of accounts payable	13,994	–
Unrealized loss on marketable securities (Note 4)	–	(84,000)
Total other income (expense)	56,267	49,200
Net loss and comprehensive loss for the year	(2,774,314)	(1,251,247)
Loss per share, basic and diluted	(0.07)	(0.04)
Weighted average shares outstanding	37,466,548	29,314,258

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

TORINO POWER SOLUTIONS INC.Consolidated Statements of Changes in Equity
(Expressed in Canadian dollars)

	Share capital		Share-based payment reserve \$	Deficit \$	Total shareholders' equity \$
	Number of shares	Amount \$			
Balance, December 31, 2015	27,820,488	4,654,473	248,085	(2,619,042)	2,283,516
Shares issued to settle debt	4,995,000	499,500	–	–	499,500
Fair value of stock options granted	–	–	200,569	–	200,569
Net loss for the year	–	–	–	(1,251,247)	(1,251,247)
Balance, December 31, 2016	32,815,488	5,153,973	448,654	(3,870,289)	1,732,338
Shares issued pursuant to private placements	10,773,705	808,029	–	–	808,029
Shares issued pursuant to finders' fees	218,931	16,420	–	–	16,420
Share issuance costs	–	(96,525)	59,765	–	(36,760)
Shares issued pursuant to debt settlements	3,886,364	485,228	–	–	485,228
Shares issued pursuant to the exercise of warrants	656,000	65,600	–	–	65,600
Net loss for the year	–	–	–	(2,774,314)	(2,774,314)
Balance, December 31, 2017	48,350,488	6,432,725	508,419	(6,644,603)	296,541

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

TORINO POWER SOLUTIONS INC.Consolidated Statements of Cash Flows
(Expressed in Canadian dollars)

	Year ended December 31, 2017 \$	Year ended December 31, 2016 \$
Operating activities		
Net loss for the year	(2,774,314)	(1,251,247)
Items not involving cash:		
Amortization and depreciation	255,555	252,727
Gain on sale of exploration and evaluation asset	–	(133,200)
Gain on settlement of debt	(42,273)	–
Impairment of intangible assets	1,337,292	–
Share-based compensation	–	200,569
Unrealized loss on marketable securities	–	84,000
Write off of accounts payable	(13,994)	–
Changes in non-cash operating working capital:		
Amounts receivable	(15,166)	(14,141)
Prepaid expenses	268	–
Accounts payable and accrued liabilities	568,937	(7,656)
Due to related parties	–	360,000
Net cash used in operating activities	(683,695)	(508,948)
Investing activities		
Purchase of short-term investments	–	(20,000)
Proceeds from the sale of marketable securities	72,000	–
Purchase of property and equipment	(12,254)	(14,365)
Net cash provided by (used in) investing activities	59,746	(34,365)
Financing activities		
Proceeds from common shares issued	808,029	–
Shares issued pursuant to warrants exercised	65,600	–
Share issuance costs	(20,340)	–
Net cash provided by financing activities	853,289	–
Increase (decrease) in cash and cash equivalents	229,340	(543,313)
Cash and cash equivalents, beginning of the year	48,974	592,287
Cash and cash equivalents, end of year	278,314	48,974
Cash and cash equivalents consist of:		
Cash in bank	258,314	48,974
Cashable guaranteed investment certificate	20,000	–
Total cash and cash equivalents	278,314	48,974
Non-cash investing and financing activities:		
Share purchase warrants issued as finder's fees	59,765	–
Shares issued as finders' fees	16,420	–
Shares issued for settlement of accounts payable	485,227	19,500
Shares issued for settlement of related party payables	–	480,000

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

TORINO POWER SOLUTIONS INC.

Notes to the consolidated financial statements

Years ended December 31, 2017 and 2016

(Expressed in Canadian dollars)

1. Nature of Operations and Continuance of Business

Torino Power Solutions Inc. (the "Company") was incorporated under the Company Act of British Columbia on September 10, 2014. The Company is a technology company involved in developing commercial applications for optimizing the current carrying capacity of grid infrastructure and transmission lines. The Company has not yet generated revenues from operations, accordingly, the Company is considered to be an enterprise in the development stage.

The Company changed its name from Torino Ventures Inc. to Torino Power Solutions Inc. on November 13, 2015 in conjunction with a reverse acquisition transaction. On November 5, 2015, the Company and Smart Autonomous Solutions Inc. ("SAS") completed a share exchange arrangement whereby the Company acquired all of the issued and outstanding shares of SAS, being 12,062,927 common shares, in consideration for securities of the Company on a 1-for-1 basis. After completion of the share exchange arrangement, the shareholders of SAS held approximately 68% of the Company. Accordingly, SAS was considered to have acquired the Company with the share exchange arrangement being accounted as a reverse acquisition of the Company by SAS shareholders (the "Transaction").

The address of the Company's corporate office and principal place of business is 7934 Government Road, Burnaby, BC, V5A 2E2.

These consolidated financial statements have been prepared on the going concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. These consolidated financial statements do not include any adjustments to the amounts and classifications of assets and liabilities that might be necessary should the Company be unable to continue as a going concern. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, and prior operating results. During the year ended December 31, 2017, the Company has no source of revenue and generated negative cash flows from operating activities, and has an accumulated deficit of \$6,644,603 as at December 31, 2017. These factors raise substantial doubt about the Company's ability to continue as a going concern. The continued operations of the Company are dependent on its ability to generate future cash flows or obtain additional financing. Management is of the opinion that sufficient working capital will be obtained from external financing to meet the Company's liabilities and commitments as they become due, although there is a risk that additional financing will not be available on a timely basis or on terms acceptable to the Company. These factors may cast significant doubt on the Company's ability to continue as a going concern. These consolidated financial statements do not reflect any adjustments that may be necessary if the Company is unable to continue as a going concern.

2. Significant Accounting Policies

(a) Basis of Preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board on a going concern basis.

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, incorporated in the province of British Columbia: Torino Acquisition Corp. until May 9, 2016 (the date of the amalgamation of Torino Acquisition Corp. into the Company). All inter-company balances and transactions have been eliminated on consolidation.

These consolidated financial statements have been prepared on a historical cost basis. The consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency.

TORINO POWER SOLUTIONS INC.

Notes to the consolidated financial statements

Years ended December 31, 2017 and 2016

(Expressed in Canadian dollars)

2. Significant Accounting Policies (continued)

(b) Use of Estimates and Judgments

The preparation of these consolidated financial statements in conformity with IFRS requires the Company's management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, revenues and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

Significant areas requiring the use of estimates include the impairment of marketable securities, useful lives and recoverability of property and equipment and intangible assets, measurement of share-based payments, and deferred income tax asset valuation allowances.

Management reviews objective evidence each reporting period to assess whether there are indications of impairment of the intangible assets and make judgments about their period of use. These determinations and their individual assumptions require that management make a decision based on the best and most reliable information available at each reporting period.

The assessment of whether the going concern assumption is appropriate requires management to take into account all available information about the future, which is at least, but is not limited to, 12 months from the end of the reporting period. The Company is aware that material uncertainties related to events or conditions may cast significant doubt upon the Company's ability to continue as a going concern.

(c) Cash and Cash Equivalents

The Company considers all highly liquid instruments with a maturity of three months or less at the time of issuance, are readily convertible to known amounts of cash, and which are subject to insignificant risk of changes in value to be cash equivalents.

(d) Exploration and Evaluation Assets

The Company records its interests in exploration and evaluation assets and areas of geological interest at cost. All direct and indirect costs related to the acquisition of these interests are capitalized on the basis of specific claim blocks or areas of geological interest until the properties to which they relate are placed into production, sold, or management has determined there to be an impairment in value. These costs will be depleted using the unit-of-production method based on the estimated proven and probable reserves available on the related property following commencement of production.

The amounts shown for exploration and evaluation assets represent costs, net of write-offs, option proceeds and recoveries, and do not necessarily reflect present or future value. Recoverability of these amounts will depend upon the existence of economically recoverable reserves, the ability of the Company to obtain financing necessary to complete development, and future profitable production. The Company reviews the carrying values of exploration and evaluation assets when there are any events or changes in circumstances that may indicate impairment. Where estimates of future cash flows are available, an impairment charge is recorded if the estimated undiscounted future net cash flows expected to be generated by the property are less than the carrying amount. An impairment charge is recognized by the amount by which the carrying amount of the property exceeds the fair value of the property.

TORINO POWER SOLUTIONS INC.

Notes to the consolidated financial statements

Years ended December 31, 2017 and 2016

(Expressed in Canadian dollars)

2. Significant Accounting Policies (continued)

(e) Property and Equipment

The Company depreciates the cost of property and equipment over their estimated useful lives at the following annual rates:

Computer equipment	55%	declining balance basis
Development equipment	55%	declining balance basis
Software	55%	declining balance basis

(f) Government Assistance and Investment Tax Credits

Government assistance and investment tax credits are recorded as either a reduction of the cost of the applicable assets, or credited against the related expense incurred in the consolidated statement of operations, or grants related to income are presented as part of net income or loss as determined by the terms and conditions of the agreements under which the assistance is provided to the Company or the nature of the expenditures which gave rise to the credits. Government assistance and investment tax credit receivables are recorded when their receipt is reasonably assured

(g) Research and Development Costs

Research and development costs are charged to the consolidated statement of operations in the period they are incurred, except those that meet the following criteria and are capitalized: (i) the feasibility of the product has been established; (ii) management intends to manufacture the product and has the capacity to use or sell it; (iii) the future economic benefits are likely to occur; (iv) the market for the product is defined; and (v) the Company has the resources to complete the project and can reliably measure development costs.

(h) Impairment of Non-Current Assets

At each reporting date, the Company reviews the carrying amounts of its tangible assets to determine whether there are any indications of impairment. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any.

Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash generating unit ("CGU") to which the asset belongs. The recoverable amount is determined as the higher of fair value less direct costs to sell and the asset's value in use. In assessing value in use, the estimated future cash flows are discounted to their present value. Estimated future cash flows are calculated using estimated recoverable reserves, estimated future commodity prices and the expected future operating and capital costs. The pre-tax discount rate applied to the estimated future cash flows reflects current market assessments of the time value of money and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

If the carrying amount of an asset or CGU exceeds its recoverable amount, the carrying amount of the asset or CGU is reduced to its recoverable amount through an impairment charge to the consolidated statement of operations.

Assets that have been impaired are tested for possible reversal of the impairment whenever events or changes in circumstance indicate that the impairment may have reversed. When an impairment subsequently reverses, the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount, but only so that the increased carrying amount does not exceed the carrying amount that would have been determined (net of depreciation, depletion and amortization) had no impairment loss been recognized for the asset or CGU in prior periods. A reversal of impairment is recognized as a gain in the consolidated statement of operations.

TORINO POWER SOLUTIONS INC.

Notes to the consolidated financial statements

Years ended December 31, 2017 and 2016

(Expressed in Canadian dollars)

2. Significant Accounting Policies (continued)

(i) Intangible Assets

Intangible assets acquired separately are recorded at cost, net of accumulated amortization, accumulated impairment losses and reversals, if applicable. Intangible assets acquired through a business combination are recognized at fair value at the date of the acquisition. Intangible assets are amortized on a straight-line basis over their useful lives according to the following annual terms:

Patents	10 years straight-line
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(j) Financial Instruments

(i) Non-derivative financial assets

The Company initially recognizes loans and receivables and deposits on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognized initially at fair value on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risk and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognized as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the consolidated statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Financial assets at fair value through profit or loss

Financial assets are classified as fair value through profit or loss when the financial asset is held for trading or it is designated as fair value through profit or loss. A financial asset is classified as held for trading if: (i) it has been acquired principally for the purpose of selling in the near future; (ii) it is a part of an identified portfolio of financial instruments that the Company manages and has an actual pattern of short-term profit taking; or (iii) it is a derivative that is not designated and effective as a hedging instrument.

Financial assets classified as fair value through profit or loss are stated at fair value with any gain or loss recognized in the consolidated statement of operations. The net gain or loss recognized incorporates any dividend or interest earned on the financial asset. Cash and cash equivalents, short-term investments, and marketable securities are classified as fair value through profit or loss.

Held-to-maturity investments

Held-to-maturity investments are recognized on a trade-date basis and are initially measured at fair value, including transaction costs. The Company does not have any assets classified as held-to-maturity investments.

TORINO POWER SOLUTIONS INC.

Notes to the consolidated financial statements

Years ended December 31, 2017 and 2016

(Expressed in Canadian dollars)

2. Significant Accounting Policies (continued)

(j) Financial Instruments (continued)

(i) Non-derivative financial assets (continued)

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and that are not classified in any of the previous categories. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign currency differences on available-for-sale equity instruments, are recognized in other comprehensive income and presented within equity in the fair value reserve. When an investment is derecognized, the cumulative gain or loss in other comprehensive income is transferred to the consolidated statement of operations. The Company does not have any assets classified as available-for-sale.

Loans and receivables

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

Impairment of financial assets

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income or loss are reclassified to the consolidated statement of operations in the period. Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the investments have been impacted. For marketable securities classified as available-for-sale, a significant or prolonged decline in the fair value of the securities below their cost is considered to be objective evidence of impairment.

Impairment of financial assets

For all other financial assets objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organization.

For certain categories of financial assets, such as amounts receivable, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. The carrying amount of financial assets is reduced by the impairment loss directly for all financial assets with the exception of amounts receivable, where the carrying amount is reduced through the use of an allowance account. When an amount receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in the consolidated statement of operations.

TORINO POWER SOLUTIONS INC.

Notes to the consolidated financial statements

Years ended December 31, 2017 and 2016

(Expressed in Canadian dollars)

2. Significant Accounting Policies (continued)

(j) Financial Instruments (continued)

(i) Non-derivative financial assets (continued)

With the exception of available-for-sale equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through the consolidated statement of operations to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized. In respect of available-for-sale equity securities, impairment losses previously recognized through the consolidated statement of operations are not reversed through the consolidated statement of operations. Any increase in fair value subsequent to an impairment loss is recognized directly in equity.

(ii) Non-derivative financial liabilities

The Company has the following non-derivative financial liabilities: accounts payable and accrued liabilities.

Such financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method.

The Company initially recognizes debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities (including liabilities designated at fair value through profit or loss) are recognized initially on the trade at which the Company becomes a party to the contractual provisions of the instrument.

The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

Financial assets and liabilities are offset and the net amount presented in the consolidated statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

(iii) Share capital

Common shares are classified as equity. Transaction costs directly attributable to the issue of common shares and stock options are recognized as a deduction from equity, net of any tax effects.

(k) Foreign Currency Translation

The functional and reporting currency is the Canadian dollar. Transactions denominated in foreign currencies are translated using the exchange rate in effect on the transaction date or at an average rate. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange in effect at the consolidated statement of financial position date. Non-monetary items are translated using the historical rate on the date of the transaction. Foreign exchange gains and losses are included in the consolidated statement of operations.

TORINO POWER SOLUTIONS INC.

Notes to the consolidated financial statements

Years ended December 31, 2017 and 2016

(Expressed in Canadian dollars)

2. Significant Accounting Policies (continued)

(l) Income Taxes

Current income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date. Current income tax relating to items recognized directly in other comprehensive income or equity is recognized in other comprehensive income or equity and not in the consolidated statement of operations. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred income tax

Deferred income tax is provided using the statement of financial position method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and recognized only to the extent that it is probable that sufficient taxable income will be available to allow all or part of the deferred income tax asset to be utilized. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current income tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

(m) Loss Per Share

Basic loss per share is computed using the weighted average number of common shares outstanding during the period. The treasury stock method is used for the calculation of diluted loss per share, whereby all "in the money" stock options and share purchase warrants are assumed to have been exercised at the beginning of the period and the proceeds from their exercise are assumed to have been used to purchase common shares at the average market price during the period. When a loss is incurred during the period, basic and diluted loss per share are the same as the exercise of stock options and share purchase warrants is considered to be anti-dilutive. As at December 31, 2017, the Company had 19,399,338 (2016 – 9,603,500) potentially dilutive shares outstanding.

(n) Comprehensive Loss

Comprehensive income (loss) is the change in the Company's net assets that results from transactions, events and circumstances from sources other than the Company's shareholders and includes items that are not included in the consolidated statement of operations.

(o) Share-based Payments

The grant date fair value of share-based payment awards granted to employees is recognized as stock-based compensation expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

TORINO POWER SOLUTIONS INC.

Notes to the consolidated financial statements

Years ended December 31, 2017 and 2016

(Expressed in Canadian dollars)

2. Significant Accounting Policies (continued)

(o) Share-based Payments (continued)

Share-based payment arrangements in which the Company receives goods or services as consideration for its own equity instruments are accounted for as equity-settled, share-based payment transactions, regardless of how the equity instruments are obtained by the Company.

The fair value of the options is measured at the grant date using the Black-Scholes option pricing model. The fair value is recognized as an expense over the vesting period, which is the period over which all of the specified vesting conditions are satisfied with a corresponding increase in equity. For awards with graded vesting, the fair value of each tranche is recognized over its respective vesting period. Non-market vesting conditions are considered in making assumptions about the number of awards that are expected to vest. When the options are exercised, any proceeds received are credited to share capital along with the amount reflected in share-based payment reserve.

(p) Reclassifications

Certain of the prior year's figures have been reclassified to conform to the current year's presentation.

(q) Accounting Standards Issued But Not Yet Effective

A number of new standards, and amendments to standards and interpretations, are not yet effective for the year ended December 31, 2017, and have not been applied in preparing these consolidated financial statements.

New standard IFRS 9, "Financial Instruments"

Amended standard IFRS 2, "Share-based Payment"

The Company has not early adopted these revised standards and is currently assessing the impact that these standards will have on the Company's consolidated financial statements.

Other accounting standards or amendments to existing accounting standards that have been issued but have future effective dates are either not applicable or are not expected to have a significant impact on the Company's consolidated financial statements.

3. Short-term Investments

Short-term investments consist of a non-redeemable guaranteed investment certificate of \$20,000, which bear interest at 0.9% per annum and are due on February 19, 2018.

4. Marketable Securities

On September 22, 2016, the Company sold 100% interest in the Company's Hazeur property in exchange for 1,200,000 common shares of TomaGold Corporation ("TomaGold") with a fair market value of \$156,000 at the acquisition date. As at December 31, 2017, the Company held nil (2016 – 1,200,000) common shares of TomaGold with a fair value of \$nil (2016 - \$72,000). During the year ended December 31, 2017, the Company recorded an unrealized loss of \$nil (2016 - \$84,000), which was included in the consolidated statement of operations. The fair value of the TomaGold common shares were determined by the quoted market price on the statement of financial position date. On February 27, 2017, the Company sold 1,200,000 TomaGold shares for proceeds of \$72,000.

TORINO POWER SOLUTIONS INC.

Notes to the consolidated financial statements

Years ended December 31, 2017 and 2016

(Expressed in Canadian dollars)

5. Property and Equipment

	Software \$	Computer Equipment \$	Development Equipment \$	Total \$
Cost:				
Balance, December 31, 2015	–	13,444	31,776	45,220
Additions	–	–	14,365	14,365
Balance, December 31, 2016	–	13,444	46,141	59,585
Additions	12,254	–	–	12,254
Balance, December 31, 2017	12,254	13,444	46,141	71,839
Accumulated depreciation:				
Balance, December 31, 2015	–	11,681	27,112	38,793
Additions	–	1,763	5,964	7,727
Balance, December 31, 2016	–	13,444	33,076	46,520
Additions	3,369	–	7,186	10,555
Balance, December 31, 2017	3,369	13,444	40,262	57,075
Carrying amounts:				
As at December 31, 2016	–	–	13,065	13,065
As at December 31, 2017	8,885	–	5,879	14,764

6. Intangible Assets

Intellectual Property

On October 8, 2011, the Company entered into an option agreement with the University of Manitoba which granted the Company an option to acquire rights to certain intellectual property of the University of Manitoba and as part of the consideration for such grant, the Company paid \$25,000 to the University of Manitoba.

On June 28, 2012, the Company exercised its option to acquire the rights to the intellectual property pursuant to a subscription and assignment agreement entered into between the Company and the University of Manitoba. In consideration, the Company agreed to pay \$225,000 as an upfront fee, issue 2,200,000 common shares and a share purchase warrant which would allow the University of Manitoba to purchase 500,000 common shares of the Company at a price of \$0.50 per share and milestone payments of \$500,000 subject to fulfillment of certain predetermined conditions as outlined in the agreement. During fiscal 2012, the Company issued the 2,200,000 common shares and the share purchase warrant and also paid \$125,000 for the upfront fees. The Company paid another \$50,000 during fiscal year 2013. On August 28, 2015, the Company issued the 500,000 common shares to the University of Manitoba as shares for debt to fulfill the purchase option. Refer to Note 14.

As at December 31, 2017, the Company has recognized an impairment of \$1,337,292 due to the uncertainty of estimated future cash flows.

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6. Intangible Assets (continued)

	Patents \$
Cost:	
Balance, December 31, 2016 and 2017	2,450,000
Accumulated amortization and impairment:	
Balance, December 31, 2015	622,708
Additions	245,000
Balance, December 31, 2016	867,708
Additions	245,000
Impairment	1,337,292
Balance, December 31, 2017	2,450,000
Carrying amounts:	
As at December 31, 2016	1,582,292
As at December 31, 2017	—

7. Exploration and Evaluation Asset

The Company owned a 100% interest in the early stage exploration property known as the Monster Lake South or “Hazeur” gold property (the “Property”) in Quebec, Canada. The Company acquired the Property pursuant to the Transaction at a fair value of \$22,800. On September 22, 2016, the Company sold its interest in the Property in exchange for 1,200,000 common shares of TomaGold with a fair value of \$156,000 (refer to Note 4). The Company recognized a gain of \$133,200 as a result of the sale of the Property.

8. Related Party Transactions

- (a) During the year ended December 31, 2017, the Company incurred consulting fees of \$150,000 (2016 - \$120,000) to the Chief Executive Officer of the Company. As at December 31, 2017, the Company owed \$10,000 (2016 - \$nil) to the Chief Executive Officer, which is included in accounts payable and accrued liabilities.
- (b) During the year ended December 31, 2017, the Company incurred consulting fees of \$150,000 (2016 - \$120,000) to the Chief Financial Officer of the Company. As at December 31, 2017, the Company owed \$10,000 (2016 - \$nil) to the Chief Financial Officer, which is included in accounts payable and accrued liabilities.
- (c) During the year ended December 31, 2017, the Company incurred consulting fees of \$50,000 (2016 - \$120,000) to a former director of the Company.

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9. Share Capital

Authorized: Unlimited common shares without par value

Unlimited preferred shares without par value

Share transactions for the year ended December 31, 2017:

- (a) On May 25, 2017, the Company issued 10,773,705 units at \$0.075 per unit for gross proceeds of \$808,028. Each unit consisted of one common share and one share purchase warrant. Each warrant entitles the holder to acquire one additional common share at an exercise price of \$0.15 for a period of two years.

In connection with this private placement, the Company paid finders' fees of \$20,340, issued 218,931 common shares with a fair value of \$16,420, and issued 490,133 brokers' warrants with a fair value of \$59,765. Each broker warrant entitles the holder to acquire one additional common share at an exercise price of \$0.15 for a period of two years. The fair value of the brokers' warrants issued were estimated using the Black-Scholes option pricing model assuming no expected dividends and the following weighted average assumptions: risk-free interest rate of 0.71%, expected life of two years, expected forfeitures of 0% and expected volatility of 186%.

- (b) On June 5, 2017, the Company issued 2,000,000 common shares with a fair value \$240,000 to settle accounts payable of \$320,000. Included in this issuance are a total of 937,500 common shares with a fair value of \$150,000 to settle accounts payable of \$37,500 for each of the President, the Chief Financial Officer, and a director of the Company. This resulted in a gain on settlement of debt of \$80,000.
- (c) As at December 31, 2017, the Company issued 1,886,364 common shares with a fair value of \$245,227 to settle accounts payable of \$207,500. Included in this issuance are a total of 1,636,364 common shares with a fair value \$212,728 to settle accounts payable of \$106,364 for each of the President and the Chief Financial Officer of the Company. This resulted in a loss on settlement of debt of \$37,727.
- (d) During the year ended December 31, 2017, the Company issued 656,000 common shares for proceeds of \$65,600 pursuant to the exercise of share purchase warrants.

Share transactions for the year ended December 31, 2016:

- (e) During the year ended December 31, 2016, the Company issued 4,995,000 common shares with a fair value \$499,500 to settle accounts payable of \$499,500. Included in this issuance are a total of 1,600,000 common shares with a fair value \$480,000 to settle accounts payable of \$160,000 for each of the Chief Executive Officer, Chief Financial Officer, and a director of the Company.

10. Share Purchase Warrants

	Number of warrants	Weighted average exercise price \$
Balance, December 31, 2015 and 2016	6,858,500	0.18
Issued	11,263,838	0.15
Exercised	(656,000)	0.10
Expired	(812,000)	0.47
Balance, December 31, 2017	16,654,338	0.15

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10. Share Purchase Warrants (continued)

As at December 31, 2017, the following share purchase warrants were outstanding:

Number of warrants outstanding	Exercise price \$	Expiry date
2,296,500	0.20	April 30, 2018
3,094,000	0.10	September 2, 2018
<u>11,263,838</u>	0.15	May 25, 2019
<u>16,654,338</u>		

11. Stock Options

Pursuant to the Company's stock option plan dated June 30, 2016, the Company may grant stock options to directors, officers, employees and consultants. The maximum aggregate number of common shares which may be reserved for issuance, set aside and made available for issuance under the plan may not exceed 10% of the issued and outstanding common shares of the Company at the time of granting the stock options. Stock options granted to any person engaged in investor relations activities will vest in stages over one year with no more 25% of the stock options vesting in any three month period. The exercise price of any stock options granted under the plan shall be determined by the Board, but may not be less than the market price of the common shares on the Exchange on the date of grant (less any discount permissible under Exchange rules). The term of any stock options granted under the plan shall be determined by the Board at the time of grant but may not exceed ten years.

The following table summarizes the continuity of the Company's stock options:

	Number of stock options	Weighted average exercise price \$
Outstanding, December 31, 2015	–	–
Granted	2,745,000	0.15
<u>Outstanding, December 31, 2016 and 2017</u>	<u>2,745,000</u>	<u>0.15</u>

Additional information regarding stock options outstanding as at December 31, 2017, is as follows:

Range of exercise prices \$	Outstanding and exercisable		
	Number of options	Weighted average remaining contractual life (years)	Weighted average exercise price \$
0.15	2,745,000	2.7	0.15

During the year ended December 31, 2017, the Company recorded share-based compensation of \$nil (2016 - \$200,569) which was charged to operations. The weighted average grant date fair value of stock options granted during the year ended December 31, 2017 was \$nil (2016 - \$0.07) per share.

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11. Stock Options (continued)

The fair values for stock options granted have been estimated using the Black-Scholes option pricing model assuming no expected dividends and the following weighted average assumptions:

	2017	2016
Risk-free interest rate	–	0.68%
Expected life (in years)	–	4.3
Expected forfeitures	–	0%
Expected volatility	–	125%

12. Financial Instruments and Risks

(a) Fair Values

Assets and liabilities measured at fair value on a recurring basis were presented on the Company's statement of financial position as at December 31, 2017 as follows:

	Fair value measurements using			Balance, December 31, 2017 \$
	Quoted prices in active markets for identical instruments (Level 1) \$	Significant other observable inputs (Level 2) \$	Significant unobservable inputs (Level 3) \$	
Cash and cash equivalents	278,314	–	–	278,314
Short-term investments	20,000	–	–	20,000
	298,314	–	–	298,314

The fair values of other financial instruments, which include amounts receivable and accounts payable and accrued liabilities, approximate their carrying values due to the relatively short-term maturity of these instruments.

(b) Credit Risk

Credit risk is the risk of a loss if a counterparty to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to its liquid financial assets including cash and cash equivalents, short-term investments, marketable securities, and amounts receivable. The Company limits the exposure to credit risk by only investing its cash and cash equivalents, short-term investments, and marketable securities with high-credit quality financial institutions. Amounts receivable consists of GST receivable from the Government of Canada. The carrying amount of these financial assets represents the maximum credit exposure.

(c) Foreign Exchange Rate Risk and Interest Rate Risk

The Company is not currently exposed to foreign exchange rate risk or interest rate risk.

(d) Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company currently settles its financial obligations out of cash. The ability to do this relies on the Company raising equity financing in a timely manner and by maintaining sufficient cash in excess of anticipated needs.

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12. Financial Instruments and Risks (continued)

(e) Market Risk

Market risk is the risk of the loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices. Management does not believe that the Company is exposed to any material market risk.

13. Capital Management

The Company manages its capital to maintain its ability to continue as a going concern and to provide returns to shareholders and benefits to other stakeholders. The capital structure of the Company consists of cash and cash equivalents and equity comprised of issued share capital and share-based payment reserve.

The Company manages its capital structure and makes adjustments to it in light of economic conditions. The Company, upon approval from its Board of Directors, will balance its overall capital structure through new share issues or by undertaking other activities as deemed appropriate under the specific circumstances.

The Company is not subject to any externally imposed capital requirements or debt covenants, and does not presently utilize any quantitative measures to monitor its capital. The Company's overall strategy with respect to capital risk management remains unchanged from the year ended December 31, 2016.

14. Commitment

In connection with the acquisition of intellectual property from the University of Manitoba, the Company is required to make the milestone payments as follows:

- \$250,000 within 30 days of the Company achieving a cumulative gross sales of \$10,000,000 with respect to the product, licencing revenues and/or sublicencing revenues relating to the assigned rights and/or the invention; and
- \$250,000 within 30 days of the Company achieving a cumulative gross sales of \$20,000,000 with respect to the product, licencing revenues and/or sublicencing revenues relating to the assigned rights and/or the invention.

15. Segmented Information

The Company operates in a single reportable operating segment, the development of commercial applications for the optimizing the current carrying capacity of grid infrastructure and transmission lines in Canada.

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16. Income Taxes

The following table reconciles the expected income tax recovery at the Canadian statutory income tax rates to the amounts recognized in the statements of operations for the years ended December 31, 2017 and 2016:

	2017 \$	2016 \$
Canadian statutory income tax rate	26%	26%
Income tax recovery at statutory rate	(721,322)	(325,325)
Tax effect of:		
Permanent differences and other	(5,856)	–
Change in enacted tax rates	(68,008)	–
Change in unrecognized deferred income tax assets	795,186	325,325
Income tax provision	–	–

The significant components of deferred income tax assets and liabilities are as follows:

	2017 \$	2016 \$
Deferred income tax assets (liability):		
Non-capital losses carried forward	1,537,833	1,166,425
Property and equipment	4,148	1,402
Intangible assets	279,070	(142,661)
Share issuance costs	19,205	16,271
Unrecognized deferred income tax assets	(1,840,256)	(1,041,437)
Net deferred income tax asset	–	–

As at December 31, 2016, the Company has non-capital losses carried forward of \$5,695,677 which are available to offset future years' taxable income. These losses expire as follows:

	\$
2031	71,729
2032	309,877
2033	304,341
2034	951,082
2035	1,448,057
2036	1,401,162
2037	1,209,429
	5,695,677

17. Subsequent Event

On March 5, 2018, the Company issued 1,220,000 common shares for proceeds of \$122,000 pursuant to the exercise of share purchase warrants.