

TORINO POWER SOLUTIONS INC.

Financial Statements

Years Ended December 31, 2018 and 2017

(Expressed in Canadian dollars)

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Torino Power Solutions Inc.

Opinion

We have audited the financial statements of Torino Power Solutions Inc. (the "Company"), which comprise the statements of financial position as at December 31, 2018 and 2017, and the statements of operations and comprehensive loss, changes in equity, and cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audits 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 1 in the financial statements, which indicates that the Company incurred a net loss of \$878,762 during the year ended December 31, 2018 and, as of that date, the Company has an accumulated deficit of \$7,253,365. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Information Other than the Financial Statements and Auditor's Report Thereon

Management is responsible for the other information. The other information comprises the information included in the Management's Discussion and Analysis, but does not include the financial statements and our auditor's report thereon.

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, 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. If, based on the work we have performed, 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.

The engagement partner on the audit resulting in this independent auditors' report is Lonny Wong.



Saturna Group Chartered Professional Accountants LLP

Vancouver, Canada

April 24, 2019

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

	December 31, 2018 \$	December 31, 2017 \$
Assets		
Current assets		
Cash and cash equivalents	67,205	278,314
Restricted cash (Note 3)	20,000	20,000
Amounts receivable	14,666	42,461
Prepaid expenses	346	–
Total current assets	102,217	340,775
Non-current assets		
Property and equipment (Note 4)	7,278	14,764
Total assets	109,495	355,539
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (Note 6)	19,367	58,998
Total liabilities	19,367	58,998
Shareholders' equity		
Share capital	6,870,475	6,432,725
Share-based payment reserve	522,518	508,419
Shares issuable (Note 7)	220,500	–
Deficit	(7,523,365)	(6,644,603)
Total shareholders' equity	90,128	296,541
Total liabilities and shareholders' equity	109,495	355,539

Nature of operations and continuance of business (Note 1)

Commitment (Note 12)

Subsequent events (Note 14)

Approved and authorized for issuance by the Board of Directors on April 24, 2019:

/s/ "Ravinder Mlait"

Ravinder Mlait, Director

/s/ "Bryan Loree"

Bryan Loree, Director

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

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

	Year ended December 31, 2018 \$	Year ended December 31, 2017 \$
Expenses		
Amortization and depreciation (Notes 4 and 5)	8,895	255,555
Consulting fees (Note 6)	541,649	716,434
Office and general	23,625	72,623
Impairment of intangible assets (Note 5)	–	1,337,292
Professional fees	13,942	13,909
Rent	43,527	40,664
Research and development costs	212,989	232,039
Share-based compensation (Note 9)	14,099	–
Transfer agent and filing fees	29,515	44,997
Wages and benefits	109,521	117,068
Total expenses	997,762	2,830,581
Net loss before other income	(997,762)	(2,830,581)
Other income		
Gain on settlement of debt (Note 7)	119,000	42,273
Write-off of accounts payable	–	13,994
Total other income	119,000	56,267
Net loss and comprehensive loss for the year	(878,762)	(2,774,314)
Loss per share, basic and diluted	(0.02)	(0.07)
Weighted average shares outstanding	51,364,991	37,466,548

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

TORINO POWER SOLUTIONS INC.

Statements of Changes in Equity
(Expressed in Canadian dollars)

	Share capital		Share-based payment reserve \$	Shares issuable \$	Deficit \$	Total shareholders' equity \$
	Number of shares	Amount \$				
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 settlement of debt	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
Shares issued pursuant to settlement of debt	2,450,000	220,500	–	–	–	220,500
Shares issued pursuant to the exercise of warrants	2,172,500	217,250	–	–	–	217,250
Fair value of stock options granted	–	–	14,099	–	–	14,099
Shares issuable pursuant to settlement of debt	–	–	–	220,500	–	220,500
Net loss for the year	–	–	–	–	(878,762)	(878,762)
Balance, December 31, 2018	52,972,988	6,870,475	522,518	220,500	(7,523,365)	90,128

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

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

	Year ended December 31, 2018 \$	Year ended December 31, 2017 \$
Operating activities		
Net loss for the year	(878,762)	(2,774,314)
Items not involving cash:		
Amortization and depreciation	8,895	255,555
Gain on settlement of debt	(119,000)	(42,273)
Impairment of intangible assets	–	1,337,292
Share-based compensation	14,099	–
Write-off of accounts payable	–	(13,994)
Changes in non-cash operating working capital:		
Amounts receivable	27,795	(15,166)
Prepaid expenses	(346)	268
Accounts payable and accrued liabilities	520,369	568,937
Net cash used in operating activities	(426,950)	(683,695)
Investing activities		
Proceeds from the sale of marketable securities	–	72,000
Purchase of property and equipment	(1,409)	(12,254)
Net cash provided by (used in) investing activities	(1,409)	59,746
Financing activities		
Proceeds from common shares issued	–	808,029
Shares issued pursuant to warrants exercised	217,250	65,600
Share issuance costs	–	(20,340)
Net cash provided by financing activities	217,250	853,289
Increase (decrease) in cash and cash equivalents	(211,109)	229,340
Cash and cash equivalents, beginning of the year	278,314	48,974
Cash and cash equivalents, end of year	67,205	278,314
Cash and cash equivalents consist of:		
Cash in bank	47,205	258,314
Cashable guaranteed investment certificate	20,000	20,000
Total cash and cash equivalents	67,205	278,314
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	220,500	485,227
Shares issuable for settlement of account payable	220,500	–

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

TORINO POWER SOLUTIONS INC.

Notes to the financial statements
Years ended December 31, 2018 and 2017
(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 address of the Company's corporate office and principal place of business is 7934 Government Road, Burnaby, BC, V5A 2E2.

These 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 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, 2018, the Company has no source of revenue, and generated negative cash flows from operating activities, and has an accumulated deficit of \$7,523,365 as at December 31, 2018. 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 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 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 financial statements have been prepared on a historical cost basis. The financial statements are presented in Canadian dollars, which is the Company's functional currency.

(b) Application of New IFRS

IFRS 9 Financial Instruments

IFRS 9 sets out requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39, Financial Instruments: Recognition and Measurement.

IFRS 9 introduces a new expected credit loss ("ECL") model for all financial assets in scope of the impairment requirements. The new ECL will result in an allowance for credit losses being recorded on financial assets irrespective of whether there has been an actual loss event.

The Company adopted the amendments to IFRS 9 effective January 1, 2018 using the full retrospective method, with no significant impact on the Company's financial statements.

TORINO POWER SOLUTIONS INC.

Notes to the financial statements
Years ended December 31, 2018 and 2017
(Expressed in Canadian dollars)

2. Significant Accounting Policies (continued)

(c) Use of Estimates and Judgments

The preparation of these 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, 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.

(d) 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.

(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 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

TORINO POWER SOLUTIONS INC.

Notes to the financial statements

Years ended December 31, 2018 and 2017

(Expressed in Canadian dollars)

2. Significant Accounting Policies (continued)

(g) Research and Development Costs

Research and development costs are charged to the statement of operations in the period they are incurred, except those that meet the following criteria and are capitalized: the feasibility of the product has been established, management intends to manufacture the product and has the capacity to use or sell it, the future economic benefits are likely to occur, the market for the product is defined, and 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 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 statement of operations.

(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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TORINO POWER SOLUTIONS INC.

Notes to the financial statements
Years ended December 31, 2018 and 2017
(Expressed in Canadian dollars)

2. Significant Accounting Policies (continued)

(j) Financial Instruments

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the respective instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are included in the initial carrying value of the related instrument and are amortized using the effective interest method. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in the statement of operations.

Fair value estimates are made at the statement of financial position date based on relevant market information and information about the financial instrument. All financial instruments are classified into either: fair value through profit or loss ("FVTPL") or amortized cost.

The Company has made the following classifications:

Cash and cash equivalents	Amortized cost
Restricted cash	Amortized cost
Amounts receivable	Amortized cost
Accounts payable and accrued liabilities	Amortized cost

The classification of financial assets depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Financial assets at FVTPL

Financial assets are classified as FVTPL when the financial asset is either held for trading or it is designated as FVTPL. A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Company manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

Financial assets at amortized cost

Financial assets at amortized cost are non-derivative financial assets which are held within a business model whose objective is to hold assets to collect contractual cash flows and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. A financial asset (unless it is a trade receivable without a significant financing component that is initially measured at the transaction price) is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition. Subsequent to initial recognition, financial assets are measured at amortized cost using the effective interest method, less any impairment.

TORINO POWER SOLUTIONS INC.

Notes to the financial statements
Years ended December 31, 2018 and 2017
(Expressed in Canadian dollars)

2. Significant Accounting Policies (continued)

(j) Financial Instruments (continued)

Impairment of financial assets

Financial assets, other than those classified as FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been decreased.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account.

When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are offset against the allowance account. Changes in the carrying amount of the allowance account are recognized in the statement of operations. Loss allowances are based on the lifetime ECL's that result from all possible default events over the expected life of the trade receivable, using the simplified approach.

For financial assets measured at amortized cost, 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 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.

(k) Financial Liabilities and Equity Instruments

Classification as debt or equity

Debt and equity instruments issued by the Company are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognized as the proceeds received, net of direct issue costs.

Other financial liabilities

Other financial liabilities (including loans and borrowings and trade payables and other liabilities) are initially measured at fair value, net of transaction costs. Subsequently, other financial liabilities are measured at amortized cost using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

TORINO POWER SOLUTIONS INC.

Notes to the financial statements
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2. Significant Accounting Policies (continued)

(l) 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 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 statement of operations.

(m) 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 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.

(n) 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, 2018, the Company had 13,563,838 (2017 – 19,399,338) potentially dilutive shares outstanding.

(o) 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 statement of operations.

TORINO POWER SOLUTIONS INC.

Notes to the financial statements

Years ended December 31, 2018 and 2017

(Expressed in Canadian dollars)

2. Significant Accounting Policies (continued)

(p) 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.

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.

(q) Reclassifications

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

(r) 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, 2018, and have not been applied in preparing these financial statements.

New standard IFRS 16, "Leases"

The Company has not early adopted this revised standard and this standard is not expected to have a material impact on the Company's 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 financial statements.

3. Restricted Cash

Restricted cash consists of a non-redeemable guaranteed investment certificate of \$20,000, which bears interest at 0.9% per annum and is due on February 19, 2019. The amount is pledged as collateral for the Company's credit cards.

TORINO POWER SOLUTIONS INC.

Notes to the financial statements
Years ended December 31, 2018 and 2017
(Expressed in Canadian dollars)

4. Property and Equipment

	Software \$	Computer Equipment \$	Development Equipment \$	Total \$
Cost:				
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
Additions	–	1,409	–	1,409
Balance, December 31, 2018	12,254	14,853	46,141	73,248
Accumulated depreciation:				
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
Additions	4,886	775	3,234	8,895
Balance, December 31, 2018	8,255	14,219	43,496	65,970
Carrying amounts:				
As at December 31, 2017	8,885	–	5,879	14,764
As at December 31, 2018	3,999	634	2,645	7,278

5. 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, a share purchase warrant with an expiry date of five years from the date of issuance, 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 550,000 common shares to the University of Manitoba as shares for debt to fulfill the purchase option.

During the year ended December 31, 2017, the Company recognized an impairment loss of \$1,337,292 due to the uncertainty of estimated future cash flows.

TORINO POWER SOLUTIONS INC.

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5. Intangible Assets (continued)

	Patents \$
<hr/>	
Cost:	
Balance, December 31, 2017 and 2018	2,450,000
<hr/>	
Accumulated amortization:	
Balance, December 31, 2016	867,708
Additions	245,000
Balance, December 31, 2017 and 2018	1,112,708
<hr/>	
Impairment:	
Balance, December 31, 2016	-
Additions	1,337,292
Balance, December 31, 2017 and 2018	1,337,292
<hr/>	
Carrying amounts:	
As at December 31, 2017 and 2018	-
<hr/>	

6. Related Party Transactions

- (a) During the year ended December 31, 2018, the Company incurred consulting fees of \$180,000 (2017 - \$150,000) to the Chief Executive Officer of the Company. As at December 31, 2018, the Company owed \$nil (2017 - \$10,000) to the Chief Executive Officer, which is included in accounts payable and accrued liabilities.
- (b) During the year ended December 31, 2018, the Company incurred consulting fees of \$180,000 (2017 - \$150,000) to the Chief Financial Officer of the Company. As at December 31, 2018, the Company owed \$nil (2017 - \$10,000) to the Chief Financial Officer, which is included in accounts payable and accrued liabilities.

7. Share Capital

Authorized: Unlimited common shares without par value

Unlimited preferred shares without par value

Share transactions for the year ended December 31, 2018:

- (a) During the year ended December 31, 2018, the Company issued 2,172,500 common shares pursuant the exercise of warrants at \$0.10 for proceeds of \$217,250.
- (b) On May 30, 2018, the Company issued 2,450,000 common shares with a fair value \$220,500 to settle accounts payable of \$245,000. Included in this issuance is 1,700,000 common shares with a fair value of \$153,000 to settle accounts payable of \$85,000 for each of the President of the Company and the Chief Financial Officer of the Company. This resulted in a gain on settlement of debt of \$24,500.

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7. Share Capital (continued)

Share transactions for the year ended December 31, 2018 (continued):

- (c) On December 31, 2018, the Company entered into debt settlement agreements to issue 3,150,000 common shares with a fair value \$220,500 to settle accounts payable of \$315,000. The amounts were recorded as shares issuable. Included in these settlements is a total of 2,100,000 common shares with a fair value of \$147,000 to be issued to settle accounts payable of \$105,000 for each of the President of the Company and the Chief Financial Officer of the Company. This resulted in a gain on settlement of debt of \$94,500.

Share transactions for the year ended December 31, 2017:

- (d) On May 25, 2017, the Company issued 10,773,705 units at \$0.075 per unit for gross proceeds of \$808,029. 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%.

- (e) 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 loss on settlement of debt of \$80,000.
- (f) 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 gain on settlement of debt of \$37,727.
- (g) 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.

8. Share Purchase Warrants

	Number of warrants	Weighted average exercise price \$
Balance, December 31, 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
Exercised	(2,172,500)	0.10
Expired	(3,218,000)	0.17
Balance, December 31, 2018	11,263,838	0.15

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8. Share Purchase Warrants

As at December 31, 2018, the following share purchase warrants were outstanding:

Number of warrants outstanding	Exercise price \$	Expiry date
11,263,838	0.15	May 25, 2019

9. 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, 2016 and 2017	2,745,000	0.15
Granted	200,000	0.15
Expired	(645,000)	0.15
Outstanding, December 31, 2018	2,300,000	0.15

Additional information regarding stock options outstanding as at December 31, 2018, 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	2,300,000	2.3	0.15

During the year ended December 31, 2018, the Company recorded share-based compensation of \$14,099 (2017 - \$nil) which was charged to operations. The weighted average grant date fair value of stock options granted during the year ended December 31, 2018 was \$0.07 (2017 - \$nil) per share.

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9. 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:

	2018	2017
Risk-free interest rate	1.93%	—
Expected life (in years)	2	—
Expected forfeitures	0%	—
Expected volatility	164%	—

10. Financial Instruments and Risk Management

(a) Fair Values

Fair value measurements are classified using a fair value hierarchy that reflects the significance of inputs used in making the measurements. The fair value hierarchy has the following levels:

- Level 1 - valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 - valuation techniques based on inputs other than quoted prices included 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 - valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair values of financial instruments, which include cash, restricted cash, 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 and restricted cash. The Company limits the exposure to credit risk by only investing its cash and cash equivalents and restricted cash 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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11. 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, share-based payment reserve, and shares issuable.

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, 2017.

12. 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.

13. 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, 2018 and 2017:

	2018 \$	2017 \$
Canadian statutory income tax rate	27%	26%
Income tax recovery at statutory rate	(237,266)	(721,322)
Tax effect of:		
Permanent differences and other	3,649	(5,856)
Change in enacted tax rates	–	(68,008)
True up of prior year difference	16,496	–
Change in unrecognized deferred income tax assets	217,121	795,186
Income tax provision	–	–

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13. Income Taxes (continued)

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

	2018 \$	2017 \$
Deferred income tax assets (liability):		
Non-capital losses carried forward	1,760,011	1,537,833
Property and equipment	6,708	4,148
Intangible assets	279,070	279,070
Share issuance costs	11,588	19,205
Unrecognized deferred income tax assets	(2,057,377)	(1,840,256)
Net deferred income tax asset	—	—

As at December 31, 2018, the Company has non-capital losses carried forward of \$6,518,559 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	1,732,229
2036	1,055,355
2037	1,209,968
2038	883,978
	6,518,559

14. Subsequent Events

- On January 8, 2019, 2018, the Company issued 3,150,000 common shares with a fair value \$220,500 to settle accounts payable of \$315,000. Refer to Note 7(c).
- On January 22, 2019, the Company granted 1,000,000 stock options to consultants exercisable at \$0.10 per common share for a period of one year.