

TORINO POWER SOLUTIONS INC.

Consolidated Financial Statements - Unaudited

September 30, 2019

(Expressed in Canadian dollars)

UNAUDITED INTERIM FINANCIAL STATEMENTS

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company discloses that its auditors have not reviewed the unaudited interim financial statements for the nine-months ended September 30, 2019.

TORINO POWER SOLUTIONS INC.
Consolidated Statements of financial position
(Expressed in Canadian dollars)

	September 30, 2019 \$	December 31, 2018 \$
Assets		
Current assets		
Cash and cash equivalents	35	67,205
Short-term investments (Note 3)	20,000	20,000
Amounts receivable	1,538	14,666
Prepaid expenses	396	346
Total current assets	21,969	102,217
Non-current assets		
Property and equipment (Note 4)	–	7,278
Total assets	21,969	109,495
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	4,932	19,367
Deferred revenue (Note 6)	20,000	–
Total liabilities	24,932	19,367
Shareholders' equity		
Share capital (Note 8)	7,270,975	6,870,475
Share-based payment reserve	571,721	522,518
Shares issuable (Note 8)	–	220,500
Deficit	(7,845,659)	(7,523,365)
Total shareholders' equity	(2,963)	90,128
Total liabilities and shareholders' equity	21,969	109,495

Nature of Operations and Continuance of Business (Note 1)
Contingencies and Commitments (Note 13)

Approved and authorized for issuance by the Board of Directors on November 13, 2019:

/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)

	Three months ended September 30, 2019 \$	Three months ended September 30, 2018 \$	Nine months ended September 30, 2019 \$	Nine months ended September 30, 2018 \$
Revenue	–	–	–	–
Operating expenses				
Professional fees	–	130	594	5,477
Advertising and promotion	–	625	–	786
Consulting fees (Note 7)	–	135,000	180,406	406,199
Development expense	–	50,077	1,114	158,600
Insurance	–	–	2,712	4,602
Office and general	(339)	2,681	3,482	13,551
Rent	–	10,560	10,411	32,967
Transfer agent fees	5,769	3,129	9,331	11,601
Exchange & filing fees	4,709	4,976	11,844	13,850
Amortization expense	634	–	6,278	–
Share-based compensation	–	–	49,203	12,167
Wages and benefits	–	28,819	47,464	84,869
Travel	–	14	–	1,858
Total operating expenses	10,773	236,011	322,839	746,527
Net loss before other income	(10,773)	(236,011)	(322,839)	(746,527)
Other income				
Interest Income	–	–	545	–
Net loss and comprehensive loss for the period	(10,773)	(236,011)	(322,294)	(746,527)
Loss per share, basic and diluted	–	–	(0.01)	(0.01)
Weighted average shares outstanding	58,040,379	52,654,156	56,676,834	50,880,345

(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 \$	Shares issuable \$	Deficit \$	Total shareholders' equity \$
	Number of shares	Amount \$				
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	245,000	–	–	–	245,000
Shares issued pursuant to the exercise of warrants	2,172,500	217,250	–	–	–	217,250
Fair value of stock options granted	–	–	12,167	–	–	12,167
Net and comprehensive loss	–	–	–	–	(746,527)	(746,527)
Balance, September 30, 2018	52,972,988	6,894,975	520,586	–	(7,391,130)	24,431
Fair value of stock options granted	–	–	1,932	–	–	1,932
Shares issued pursuant to the settlement of debt	–	(24,500)	–	220,500	–	196,000
Net and comprehensive loss	–	–	–	–	(132,235)	(132,235)
Balance, December 31, 2018	52,972,988	6,870,475	522,518	220,500	(7,523,365)	90,128
Shares issued pursuant to the settlement of debt	6,750,000	400,500	–	(220,500)	–	180,000
Fair value of stock options granted	–	–	49,203	–	–	49,203
Net and comprehensive loss	–	–	–	–	(322,294)	(322,294)
Balance, September 30, 2019	59,722,988	7,270,975	571,721	–	(7,845,659)	(2,963)

(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)

	Three months ended September 30, 2019 \$	Three months ended September 30, 2018 \$	Nine months ended September 30, 2019 \$	Nine months ended September 30, 2018 \$
Operating activities				
Net loss for the period	(10,773)	(236,011)	(322,294)	(746,527)
Items not involving cash:				
Stock-based compensation	–	–	49,203	12,167
Amortization	634	–	6,278	–
Consulting fees	180,000	135,000	180,000	120,000
Changes in non-cash operating working capital:				
Amounts receivable	(922)	38,370	13,128	30,434
Prepaid expenses	–	(136)	(50)	(136)
Accounts payable and accrued liabilities	(178,429)	355	(14,435)	32,279
Deferred revenues	–	–	20,000	–
Net cash used in operating activities	(9,490)	(62,422)	(68,170)	(551,783)
Investing activities				
Decrease (increase) in investments	–	–	–	–
Sale (purchase) of property and equipment	1,000	–	1,000	(1,408)
Net cash used in investing activities	1,000	–	1,000	(1,408)
Financing activities				
Proceeds from common shares issued	–	95,250	–	462,250
Share issuance costs	–	–	–	–
Net cash provided by financing activities	–	95,250	–	462,250
Increase (decrease) in cash	(8,490)	32,828	(67,170)	(90,941)
Cash, beginning of the period	8,525	174,545	67,205	298,314
Cash, end of the period	35	207,373	35	207,373

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

TORINO POWER SOLUTIONS INC.

Notes to the consolidated financial statements

September 30, 2019

(Expressed in Canadian dollars)

1. Nature of Operations and Continuance of Business

Torino Power Solutions Inc. (formerly Torino Ventures 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 Suite 705 – 625 West Kent Avenue North, Vancouver, B.C., V6P 6T7, Canada.

These consolidated financial statements ("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. As at September 30, 2019, the Company has no source of revenue, generates negative cash flows from operating activities, and has an accumulated deficit of \$7,845,659. 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 interim financial statements, including comparatives, have been prepared using accounting policies consistent with International Financial Reporting Standards ("IFRS") and in accordance with International Accounting Standard ("IAS") 34 Interim Financial Reporting.

The 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 consolidated financial statements

September 30, 2019

(Expressed in Canadian dollars)

2. Significant Accounting Policies (continued)

(c) 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 recoverability of exploration and evaluation assets, useful lives and recoverability of property and equipment, useful life and recoverability of 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 Comprehensive Loss, or grants related to income are presented as part of profit or loss, either separately or under a general heading such as 'Other Income', as determined by the terms and conditions of the agreements under which the assistance is provided to the Corporation 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 consolidated financial statements

September 30, 2019

(Expressed in Canadian dollars)

2. Significant Accounting Policies (continued)

(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: 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. No research and development expenses have been recorded as intangible assets as at September 30, 2019 and 2018.

(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 income.

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 consolidated financial statements

September 30, 2019

(Expressed in Canadian dollars)

2. Significant Accounting Policies (continued)

(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 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 statement of operations. The net gain or loss recognized incorporates any dividend or interest earned on the financial asset. Cash and cash equivalents 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.

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 statement of operations. The Company does not have any assets classified as available-for-sale.

TORINO POWER SOLUTIONS INC.

Notes to the consolidated financial statements

September 30, 2019

(Expressed in Canadian dollars)

2. Significant accounting policies (continued)

(j) Financial Instruments (continued)

(i) Non-derivative assets (continued)

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 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.

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 statement of operations.

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 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 statement of operations are not reversed through the statement of operations. Any increase in fair value subsequent to an impairment loss is recognized directly in equity.

TORINO POWER SOLUTIONS INC.

Notes to the consolidated financial statements

September 30, 2019

(Expressed in Canadian dollars)

2. Significant accounting policies (continued)

(j) Financial Instruments (continued)

(ii) Non-derivative financial liabilities

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 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.

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.

(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 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.

(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 profit or loss. 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.

TORINO POWER SOLUTIONS INC.

Notes to the consolidated financial statements

September 30, 2019

(Expressed in Canadian dollars)

2. Significant accounting policies (continued)

(k) Income Taxes (continued)

Deferred income tax

Deferred income tax is provided using the balance sheet 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 profit 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 tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

(l) 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 September 30, 2019, the Company had 14,563,838 (2018 – 13,563,838) potential dilutive shares outstanding. .

(m) 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.

(n) 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.

Where equity instruments are granted to parties other than employees, they are recorded by reference to the fair value of the services received. If the fair value of the services received cannot be reliably estimated, the Company measures the services received by reference to the fair value of the equity instruments granted, measured at the date the counterparty renders service.

TORINO POWER SOLUTIONS INC.

Notes to the consolidated financial statements

September 30, 2019

(Expressed in Canadian dollars)

2. Significant Accounting Policies (continued)

(n) Share-based Payments (continued)

All equity-settled share-based payments are reflected in share-based payment reserve, unless exercised. Upon exercise, shares are issued from treasury and the amount reflected in share-based payment reserve is credited to share capital, adjusted for any consideration paid.

(o) Reclassifications

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

(p) Accounting Standards Issued But Not Yet Effective

A number of new standards, and amendments to standards and interpretations, are not yet effective for the period ended September 30, 2019, and have not been applied in preparing these consolidated financial statements.

New standard IFRS 16, "Leases"

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 cashable guaranteed investment certificate of \$20,000, which bears interest at 0.5% per annum and is due on August 2, 2020.

4. Property and Equipment

	Software \$	Computer Equipment \$	Development Equipment \$	Total \$
Cost:				
Balance, December 31, 2017	12,254	13,444	46,141	71,839
Additions	—	1,409	—	1,409
Balance, September 30, 2018 & December 31, 2018	12,254	14,853	46,141	73,248
Balance, September 30, 2019	12,254	14,853	46,141	73,248
Accumulated depreciation:				
Balance, December 31, 2017 & September 30, 2018	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
Additions	3,999	634	1,646	6,279
Balance, September 30, 2019	12,254	14,853	45,142	72,249

TORINO POWER SOLUTIONS INC.

Notes to the consolidated financial statements

September 30, 2019

(Expressed in Canadian dollars)

4. Property and Equipment (continued)

Carrying amounts:

As at December 31, 2017	8,885	–	5,879	14,764
As at September 30, 2018	8,885	1,409	5,879	16,172
As at December 31, 2018	3,999	634	2,645	7,278
As at September 30, 2019	–	–	–	–

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 and as part of the consideration for such grant, the Company paid \$25,000 to the University.

On June 28, 2012 the Company exercised their option to acquire the rights to the intellectual property pursuant to a subscription and assignment agreement entered into between the Company and University of Manitoba. In consideration the Company agreed to pay \$225,000 as upfront fee, issue 2,200,000 common shares and a common share purchase warrant which would allow the University 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 shares and the common share purchase warrant and also paid \$125,000 cash for the upfront fees. The Company paid another \$50,000 cash during the 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.

	Patents \$
Cost:	
Balance, December 31, 2017, September 30, 2018, December 31, 2018 & September 30, 2019	2,450,000
Accumulated amortization:	
Balance, December 31, 2017, September 30, 2018, December 31, 2018 & September 30, 2019	1,112,708
Impairment:	
Balance, December 31, 2017, September 30, 2018, December 31, 2018 & September 30, 2019	1,337,292
Carrying amounts:	
Balance, December 31, 2017, September 30, 2018, December 31, 2018, & September 30, 2019	–

TORINO POWER SOLUTIONS INC.

Notes to the consolidated financial statements

September 30, 2019

(Expressed in Canadian dollars)

6. Deferred Revenue

During the nine-month period ended September 30, 2019, the Company received a purchase order for a Power Line Monitoring system ("PLM"). During the period ended September 30, 2019, the Company received the payment for the PLM. As the PLM has not yet been installed, the payment was recorded as deferred revenue.

7. Related Party Transactions

- (a) During the period ended September 30, 2019, the Company incurred consulting fees of \$nil (2018 - \$45,000) to the Chief Executive Officer of the Company. As at September 30, 2019, the Company owed \$nil (2018 - \$60,000) to the Chief Executive Officer, which is included in accounts payable and accrued liabilities.
- (b) During the period ended September 30, 2019, the Company incurred consulting fees of \$nil (2018 - \$45,000) to the Chief Financial Officer of the Company. As at September 30, 2019, the Company owed \$nil (2018 - \$60,000) to the Chief Financial Officer, which is included in accounts payable and accrued liabilities.

8. Share Capital

Authorized: Unlimited common shares without par value
Unlimited preferred shares without par value

Share transactions for the period ended September 30, 2019:

- (a) During the nine-month period ended September 30, 2019, the Company issued 3,150,000 common shares with a fair value of \$220,500 to settle accounts payable of \$315,000 pursuant to the debt settlement agreements entered into on December 31, 2018.
- (b) During the nine-month period ended September 30, 2019, the Company issued 3,600,000 common shares with a fair value of \$180,000 to settle accounts payable of \$180,000.

Share transactions for the period 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.
- (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:

- (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.

TORINO POWER SOLUTIONS INC.

Notes to the consolidated financial statements

September 30, 2019

(Expressed in Canadian dollars)

8. Share Capital (continued)

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.

9. Share Purchase Warrants

	Number of warrants	Weighted average exercise price \$
Balance, December 31, 2017	16,654,338	0.15
Exercised	(2,172,500)	0.10
Expired	(3,218,000)	0.17
Balance, September 30, 2018	11,263,838	0.15
Balance, December 31, 2018	11,263,838	0.15
Balance, September 30, 2019	11,263,838	0.15

As at September 30, 2019, the following share purchase warrants were outstanding and exercisable:

Number of warrants outstanding	Exercise price \$	Expiry date
11,263,838	0.15	May 25, 2020
<u>11,263,838</u>		

The expiry date of the 11,263,838 warrants was extended 12 months from the original expiry date of May 25, 2019.

TORINO POWER SOLUTIONS INC.

Notes to the consolidated financial statements

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(Expressed in Canadian dollars)

10. 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, 2017	2,745,000	0.15
Expired	(645,000)	0.15
Granted	200,000	0.15
Outstanding, September 30, 2018 & December 31, 2018	2,300,000	0.15
Granted	1,000,000	0.10
Outstanding, September 30, 2019	3,300,000	0.13

Additional information regarding stock options outstanding as at September 30, 2019 is as follows:

Outstanding and exercisable			
Range of exercise prices \$	Number of options	Weighted average remaining contractual life (years)	Weighted average exercise price \$
0.15	2,300,000	1.9	0.15
0.10	1,000,000	0.3	0.10

During the nine-month period ended September 30, 2019, the Company recorded share-based compensation of \$49,203 (2018 - \$12,167) which was charged to operations. The weighted average fair value of stock options granted during the nine-month period ended September 30, 2019 was \$0.05 (2018 - \$0.06) per share.

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:

	2019	2018
Risk-free interest rate	2.00%	2.00%
Expected life (in years)	1.00	2
Expected forfeitures	0%	0%
Expected volatility	143%	138%

TORINO POWER SOLUTIONS INC.

Notes to the consolidated financial statements

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11. 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 September 30, 2019 as follows:

	Fair Value Measurements Using			Balance, September 30, 2019 \$		
	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	35	–		–	35

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. Trade receivables are the most significant financial instrument that is exposed to credit risk. The Company provides credit to its customers in the normal course of operation. As at September 30, 2019, the Company's risk is minimal as its receivables consist of receivables from Canada Revenue Agency ("CRA") for GST ITCs. The Company believes that its exposure to credit risk is low. The maximum exposure to loss arising from trade receivables is equal to their total carrying amounts.

(c) Currency Risk

Currency risk is the risk that the fair values of future cash flows of a financial instrument will fluctuate because they are denominated in currencies that differ from the respective functional currency. The Company's functional and reporting currency is the Canadian dollar. The Company's exposure to foreign currency risk is primarily related to fluctuations in the value of the Canadian dollar relative to the United States dollar ("USD") as some of the Company's expenses are in USD. The Company does not use derivative financial instruments to cover the variability of cash flows in foreign currencies.

(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. Accounts payable and accrued liabilities and due to related parties are all payable within one year.

(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.

TORINO POWER SOLUTIONS INC.

Notes to the consolidated financial statements

September 30, 2019

(Expressed in Canadian dollars)

11. Financial Instruments and Risks (continued)

(f) Interest rate Risk

Interest rate risk is the risk that the fair value of deferred cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Corporation is exposed to interest rate risk arising primarily from fluctuation in interest rates on its cash, cash equivalents and short-term investments. The Corporation limits its exposure to interest rate risk by continually monitoring and adjusting portfolio duration to align to forecasted cash requirements and anticipated changes in the interest rates. Based on cash and cash equivalents at September 30, 2019, the Company is not exposed to any risk as there are no interest bearing short-term investments or cash equivalents.

12. 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, 2018.

13. Contingencies and Commitments

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

- (a) A payment of \$250,000 within 30 days of the Company achieving a cumulative gross sales of \$10 Million with respect to the product, licensing revenues and/or sublicensing revenues relating to the assigned rights and/or the invention.
- (b) A payment of \$250,000 within 30 days of the Company achieving a cumulative gross sales of \$20 Million with respect to the product, licensing revenues and/or sublicensing revenues relating to the assigned rights and/or the invention.

14. 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.