

ATI AIRTEST TECHNOLOGIES INC.
CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016
(Expressed in Canadian dollars)

INDEPENDENT AUDITOR'S REPORT

To the shareholders of ATI Airtest Technologies Inc.

We have audited the accompanying consolidated financial statements of ATI Airtest Technologies Inc., which comprise the consolidated statements of financial position as at December 31, 2016 and 2015, and the consolidated statements of comprehensive loss, changes in shareholders' deficiency and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of ATI Airtest Technologies Inc. as at December 31, 2016 and 2015, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of matter

Without modifying our opinion, we draw attention to Note 1 to the consolidated financial statements which describes matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about ATI Airtest Technologies Inc.'s ability to continue as a going concern.

DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED PROFESSIONAL ACCOUNTANTS

Vancouver, Canada
May 10, 2017

ATI AIRTEST TECHNOLOGIES INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Expressed in Canadian dollars)

	Note	December 31, 2016	December 31, 2015
ASSETS			
Current			
Accounts receivable	5	\$ 561,996	\$ 415,456
Inventory	6	198,400	324,906
Prepaid expenses		2,955	13,500
		763,351	753,862
Non-current			
Equipment	7	4,084	4,955
		\$ 767,435	\$ 758,817
LIABILITIES			
Current			
Cash deficiency		\$ 7,997	\$ 41,136
Accounts payable and accrued liabilities	8	1,363,247	1,192,962
Factoring facility	9	571,023	352,442
Advances payable	10	207,756	207,756
Term loans	11	134,603	83,187
Convertible notes	12	241,941	-
Derivative liability	12,15	26,096	52,344
Due to related parties	13	763,176	497,107
		3,315,839	2,426,934
Non-current			
Loans	14	1,167,910	1,167,910
Convertible note	12	-	218,030
		4,483,749	3,812,874
SHAREHOLDERS' DEFICIENCY			
Share capital	15	9,675,786	9,675,786
Reserves		353,637	287,978
Deficit		(13,745,737)	(13,017,821)
		(3,716,314)	(3,054,057)
		\$ 767,435	\$ 758,817

APPROVED ON BEHALF OF THE BOARD

/s/ "George Graham"

/s/ "Darrel Taylor"

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

ATI AIRTEST TECHNOLOGIES INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(Expressed in Canadian dollars)
For the years ended December 31,

	Note	2016	2015
PRODUCT SALES	16	\$ 3,046,546	\$ 3,140,486
COST OF GOODS SOLD	6	1,970,861	2,020,922
GROSS PROFIT		1,075,685	1,119,564
EXPENSES			
General and administrative	17	621,916	612,778
Business development and marketing	17	704,949	628,508
Research and development		14,453	12,141
		(1,341,318)	(1,253,427)
OTHER ITEMS			
Accretion	12	(23,911)	(66,590)
Interest and financing fees	11,12, 13,14	(397,227)	(259,043)
Foreign exchange		(67,393)	503,563
Gain on revaluation of derivative liability	12, 15	26,248	51,827
NET INCOME (LOSS) FOR THE YEAR		(727,916)	95,894
OTHER COMPREHENSIVE INCOME (LOSS)			
Translation to presentation currency		65,659	(574,444)
COMPREHENSIVE LOSS		\$ (662,257)	\$ (478,550)
Earnings per shares – basic and diluted		\$ 0.02	\$ -
Weighted average number of common shares outstanding			
– basic and diluted		34,705,581	31,736,664

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

ATI AIRTEST TECHNOLOGIES INC.
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' DEFICIENCY
(Expressed in Canadian dollars)

	Note	Number of shares	Amount	Obligation to issue shares	Reserves		Deficit	Total shareholders' deficiency
					Share based payment	Foreign currency translation		
Balance, December 31, 2014		24,385,061	\$ 9,188,281	\$ 516,026	\$ 1,315,182	\$ (452,760)	\$ (13,113,715)	\$ (2,546,986)
Private placement	15	2,650,000	132,500	(132,500)	-	-	-	-
Shares for debt	15	7,670,520	383,526	(383,526)	-	-	-	-
Warrant derivative liability	15	-	(28,521)	-	-	-	-	(28,521)
Foreign currency translation adjustment		-	-	-	-	(574,444)	-	(574,444)
Net income for the year		-	-	-	-	-	95,894	95,894
Balance, December 31, 2015		34,705,581	9,675,786	-	1,315,182	(1,027,204)	(13,017,821)	(3,054,057)
Foreign currency translation adjustment		-	-	-	-	65,659	-	65,659
Net loss for the year		-	-	-	-	-	(727,916)	(727,916)
Balance, December 31, 2016		34,705,581	\$ 9,675,786	\$ -	\$ 1,315,182	\$ (961,545)	\$ (13,745,737)	\$ (3,716,314)

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

ATI AIRTEST TECHNOLOGIES INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Expressed in Canadian dollars)

For the years ended December 31,

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss) for the year	\$ (727,916)	\$ 95,894
Items not involving cash:		
Accretion	23,911	66,590
Accrued interest expense	113,943	73,795
Amortization	871	1,115
Foreign exchange	65,659	(573,903)
Change in fair value of derivative liability	(26,248)	(51,827)
Changes in non-cash working capital items:		
Accounts receivable	(146,540)	28,774
Inventory	126,506	43,664
Prepaid expenses	10,545	(10,231)
Accounts payable and accrued liabilities	171,535	27,853
Factoring facility	218,581	(17,245)
Net cash flows used in operating activities	(169,153)	(315,521)
CASH FLOWS FROM FINANCING ACTIVITIES		
Loan proceeds	145,271	340,000
Related parties	153,254	2,697
Loan repayments	(96,233)	(34,202)
Net cash flows provided by financing activities	202,292	308,495
Change in cash for the year	33,139	(7,026)
Cash deficiency, beginning of the year	(41,136)	(34,110)
Cash deficiency, end of the year	\$ (7,997)	\$ (41,136)
Cash paid in interest	\$ 74,695	\$ 16,103

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

ATI AIRTEST TECHNOLOGIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2016

(Expressed in Canadian dollars)

1. Nature of Operations and Ability to Continue as a Going Concern

ATI Airstest Technologies Inc. (the "Company") was incorporated in British Columbia on March 13, 1996. The primary business activity is the manufacture and sale of air testing equipment and related services in Canada and the United States. The Company's shares are traded on the TSX Venture Exchange ("TSX-V") under the symbol "AAT".

The Company's head office and warehouse is located at Unit 9-1520 Cliveden Ave, Delta, British Columbia V3M 6J8.

These consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities in the normal course of business. As at December 31, 2016, the Company has accumulated losses totaling \$13,745,737 and has a working capital deficiency of \$2,552,488 (2015: \$1,673,072) and is not able to finance day to day activities through operations. A significant portion of the amounts owed to the Company's creditors are past due. The Company's continuation as a going concern is dependent upon its ability to obtain additional financing, continued support of existing creditors and lenders, continued financial support from related parties, and ultimately attaining profitable operations. These conditions indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. Management intends to finance operating costs over the next twelve months through equity financing, sales growth, loans from related parties, and bridge financing.

These financial statements do not reflect the adjustments to the carrying values of assets and liabilities, the reported revenues and expenses, and the statement of financial position classifications used, that would be necessary if the Company were unable to realize its assets and settle its liabilities as a going concern in the normal course of operations. Failure to continue as a going concern would require that assets and liabilities be recorded at their liquidation values, which might differ significantly from their carrying values.

2. Statement of Compliance and Basis of Measurement

The consolidated financial statements of the Company comply with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"). The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

These consolidated financial statements have been prepared on a historical cost basis, modified where applicable. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting except for cash flow information.

3. Significant accounting policies

Basis of consolidation

The consolidated financial statements of the Company and each of its wholly owned inactive subsidiaries: Airwave Environmental Technologies Inc. (Canada), Airstest Technologies Corp. (US), and Clairtec Inc. (US). Inter-company transactions and balances have been eliminated upon consolidation.

ATI AIRTEST TECHNOLOGIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2016

(Expressed in Canadian dollars)

3. Significant accounting policies (continued)

Receivables

Receivables are carried at the lower of amortized cost or the present value of estimated future cash flows, taking into account discounts given or agreed. The present value of estimated future cash flows is determined through the use of value adjustments for uncollectible amounts. As soon as individual trade accounts receivable can no longer be collected and are expected to result in a loss, they are designated as doubtful trade accounts receivable and valued at the expected collectible amounts. The allowance for the risk of non-collection of trade accounts receivable takes into account the length of time the balance of the receivable remains outstanding.

In the event of sale of receivables and factoring, the Company derecognizes receivables when the Company has given up control or continuing involvement, which is deemed to have occurred when the Company has transferred its rights to receive cash flows from the receivables and the Company has transferred substantially all of the risks and rewards of the ownership of the receivables.

Prior to transferring the risks and rewards of ownership of the receivables, the Company's receivables are recognized to the extent of the Company's continuing involvement in the assets. In this case, the Company also recognizes an associated liability. The transferred receivable and associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

Inventory

Inventories include raw materials, work in process and finished goods, all of which are stated at the lower of weighted average cost and net realizable value. Cost includes the cost of direct material, direct labour and other overhead costs. Labour costs are allocated to items based on actual labour rates. Fixed and variable overhead are allocated to production activities in converting materials to finished goods.

Equipment

Equipment is stated at historical cost less accumulated amortization and accumulated impairment losses. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the statement of comprehensive loss during the financial period in which they are incurred.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized in the statement of comprehensive loss.

Amortization is calculated on a declining-balance method to write off the cost of the assets to their residual values over their estimated useful lives. The amortization rates applicable to each category of equipment are as follows:

Class of equipment	Rate
Computer hardware	30%
Office furniture and fixtures	20%
Assembly equipment	20%
Testing equipment	30%

ATI AIRTEST TECHNOLOGIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2016

(Expressed in Canadian dollars)

3. Significant accounting policies (continued)

Revenue recognition

Product sales revenue is recognized when evidence of a contractual arrangement exists, prices are determinable, and the risks of ownership or title pass to the customer. This is normally when products are shipped from the warehouse, provided collection is probable.

Service revenue is recognized when the service has been completed to the customer's specification and collection is probable.

Warranty provision

The Company accrues for estimated warranty obligations under a warranty provision at the time sales are recognized and any changes in estimates are recognized prospectively through the provision. The Company provides its customers with a limited right of return for defective products. All warranty returns must be authorized by the Company prior to acceptance. Warranty provisions are estimated based on the Company's experience and to date have been insignificant.

Earnings (loss) per share

Basic income (loss) per share amounts are calculated by dividing net loss by the weighted average number of common shares outstanding during the year.

Diluted income (loss) per share amounts are computed similarly to basic income (loss) per share except that the weighted average shares outstanding are increased to include additional shares from the assumed exercise of additional options and warrants, if dilutive. The number of additional shares is calculated by assuming that outstanding stock options and warrants were exercised and that the proceeds from such exercises were used to acquire shares of common stock at the average market price during the year. For the years presented, the effect of outstanding options and warrants was either anti-dilutive or they were not "in-the-money". Consequently, basic income (loss) per share equals diluted income (loss) per share.

Income taxes

Income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to 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, in the countries where the Company operates and generates taxable income. 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.

Deferred tax is recognized on temporary differences at the reporting date arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and recognized only to the extent that it is probable that future taxable income will be available to allow all or part of the temporary differences to be utilized. Deferred 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 and are expected to apply by the end of the reporting period. Deferred 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 taxes relate to the same taxable entity and the same taxation authority.

ATI AIRTEST TECHNOLOGIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2016

(Expressed in Canadian dollars)

3. Significant accounting policies (continued)

Share-based payments

The Company operates a stock option plan. Share-based payments to employees are measured at the fair value of the instruments issued and amortized over the vesting periods. Share-based payments to non-employees are measured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The corresponding amount is recorded to the share-based payment reserve. The fair value of options is determined using the Black–Scholes Option Pricing Model. The number of shares and options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognized for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest.

Financial Instruments

The Company classifies its financial instruments in the following categories: at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale and financial liabilities. The classification depends on the purpose for which the financial instruments were acquired. Management determines the classification of financial instruments at initial recognition.

Financial assets are classified at fair value through profit or loss when they are either held for trading for the purpose of short-term profit taking, derivatives not held for hedging purposes, or when they are designated as such to avoid an accounting mismatch or to enable performance evaluation where a group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. Such assets are subsequently measured at fair value with changes in carrying value being included in profit or loss.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortized cost. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period.

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the Company's intention to hold these investments to maturity. They are subsequently measured at amortized cost. Held-to-maturity investments are included in non-current assets, except for those which are expected to mature within 12 months after the end of the reporting period.

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not suitable to be classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments and are subsequently measured at fair value in current assets. Unrealized gains and losses are recognized in other comprehensive income, except for impairment losses and foreign exchange gains and losses.

Financial liabilities (excluding financial guarantees that are derivatives) are subsequently measured at amortized cost.

Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. At each reporting date, the Company assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a significant and prolonged decline in the value of the instrument is considered to determine whether impairment has arisen.

ATI AIRTEST TECHNOLOGIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016
(Expressed in Canadian dollars)

3. Significant accounting policies (continued)

Impairment of assets

The carrying amount of the Company's long term assets are reviewed at each reporting date to determine whether there is any indication of impairment. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. An impairment loss is recognized whenever the carrying amount of an asset, or the asset's cash generating unit, exceeds its recoverable amount. Impairment losses are recognized in the statement of comprehensive loss.

The recoverable amount of an asset is measured at the greater of its fair value less cost to sell and its value in use. In assessing value in use, the estimated attributable future cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the asset.

For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is only reversed if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount, however, a reversal cannot exceed the carrying amount that would have been determined had no impairment loss been recognized in previous years.

Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment.

Foreign currency translation

The functional currency of each entity is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Canadian dollars. The Company's functional currency is the United States dollar.

Transactions and balances:

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the period-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items or on settlement of monetary items are recognized in the statement of comprehensive loss in the period in which they arise, except where deferred in equity as a qualifying cash flow or net investment hedge.

Exchange differences arising on the translation of non-monetary items are recognized in other comprehensive income in to the extent that gains and losses arising on those non-monetary items are also recognized in other comprehensive income. Where the non-monetary gain or loss is recognized in profit or loss, the exchange component is also recognized in profit or loss.

Translation to presentation currency:

The financial results are translated from the functional currency to the Company's presentation currency as follows:

- assets and liabilities are translated at period-end exchange rates prevailing at that reporting date; and
- income and expenses are translated at average exchange rates for the period.

Exchange differences arising on translation are recognized in other comprehensive income and recorded in the Company's foreign currency translation reserve in equity.

ATI AIRTEST TECHNOLOGIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2016

(Expressed in Canadian dollars)

3. Significant accounting policies (continued)

Comparative Information

Certain of the prior year balances have been reclassified to conform with the presentation of the current year financial statements.

Accounting standards issued but not yet applied

The Company has reviewed new and revised accounting pronouncements that have been issued but are not yet effective. The Company has not early adopted any of these standards and is currently evaluating the impact, if any, that these standards might have on its financial statements.

IFRS 9 "Financial Instruments"

This new standard is a partial replacement of IAS 39 "Financial Instruments: Recognition and Measurement". IFRS 9 introduces new requirements for the classification and measurement of financial assets, additional changes relating to financial liabilities, a new general hedge accounting standard which will align hedge accounting more closely with risk management. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2018 with early adoption permitted.

New standard IFRS 15 "Revenue from Contracts with Customers"

This new standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. IFRS 15 is effective for annual periods beginning on or after January 1, 2018 with early adoption permitted.

New standard IFRS 16 "Leases"

This new standard replaces IAS 17 "Leases" and the related interpretative guidance. IFRS 16 applies a control model to the identification of leases, distinguishing between a lease and a service contract on the basis of whether the customer controls the asset being leased. For those assets determined to meet the definition of a lease, IFRS 16 introduces significant changes to the accounting by lessees, introducing a single, on-balance sheet accounting model that is similar to current finance lease accounting, with limited exceptions for short-term leases or leases of low value assets. Lessor accounting is not substantially changed. The standard is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted for entities that have adopted IFRS 15.

ATI AIRTEST TECHNOLOGIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2016

(Expressed in Canadian dollars)

4. Significant Judgments, Estimates and Assumptions

Significant estimates and assumptions

The preparation of financial statements in accordance with IFRS requires the Company to make estimates and assumptions concerning the future. The Company's management reviews these estimates and underlying assumptions on an ongoing basis, based on experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to estimates are adjusted for prospectively in the period in which the estimates are revised.

Estimates and assumptions where there is significant risk of material adjustments to assets and liabilities in future accounting periods include the useful lives of equipment, recoverability of trade receivables, net realizable value of inventory, fair value measurements for financial instruments, and other equity-based payments, warranty accruals, cost allocations, and the measurement of deferred tax assets and liabilities.

Significant judgments

The preparation of financial statements in accordance with IFRS requires the Company to make judgments, apart from those involving estimates, in applying accounting policies. The most significant judgments in applying the Company's financial statements include the assessment of the Company's ability to continue as a going concern and whether there are events or conditions that may give rise to significant uncertainty.

5. Accounts receivable

	December 31, 2016		December 31, 2015	
Trade receivables	\$	47,122	\$	68,136
Trade receivables factored (Note 9)		526,336		351,264
Allowance for doubtful amounts		(11,462)		(3,944)
	\$	561,996	\$	415,456

6. Inventory

	December 31, 2016		December 31, 2015	
Finished goods	\$	53,626	\$	89,204
Work in progress		29,756		120,739
Raw materials		115,018		114,963
	\$	198,400	\$	324,906

For the year ended December 31, 2016, inventory recognized as an expense in cost of sales amounted to \$1,680,511 (2015 - \$1,789,790).

ATI AIRTEST TECHNOLOGIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2016

(Expressed in Canadian dollars)

7. Equipment

	Office furniture and fixtures	Computer hardware	Testing equipment	Assembly equipment	Total
Cost:					
At December 31, 2014	\$ 39,224	\$ 73,255	\$ 17,967	\$ 5,793	\$ 136,239
Depreciation:					
At December 31, 2014	35,393	71,534	17,635	5,607	130,169
Charge for the year	718	280	86	31	1,115
At December 31, 2015	36,111	71,814	17,721	5,638	131,284
Charge for the year	544	227	70	30	871
At December 31, 2016	\$ 36,655	\$ 72,041	\$ 17,791	\$ 5,668	\$ 132,155
Net book value:					
At December 31, 2015	\$ 3,113	\$ 1,441	\$ 246	\$ 155	\$ 4,955
At December 31, 2016	\$ 2,569	\$ 1,214	\$ 176	\$ 125	\$ 4,084

8. Accounts payable and accrued liabilities

	December 31, 2016	December 31, 2015
Trade payables	\$ 1,204,685	\$ 842,308
Due to government agencies	7,261	121,034
Payroll accrual and vacation payable	5,589	1,312
Accrued obligations	145,712	228,308
	\$ 1,363,247	\$ 1,192,962

ATI AIRTEST TECHNOLOGIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016
(Expressed in Canadian dollars)

9. Factoring Facility

The Company has a factoring facility under which, as agreed on by each of the lender and the Company, certain accounts receivable may be assigned to the lender for a price consisting of the face value of the account less a discount of 1.5% provided the balance is paid within the first thirty days it was assigned to the lender, after which the discount is increased by 0.05% for each day the account remains outstanding. In accordance with the terms of the agreement, the lender withholds 15% of the price of the account until the account has been fully paid. The specified trade receivables are pledged as security for the arrangement with full recourse against the Company.

In addition, the Company may request loans or advances against purchase orders received from customers with terms and conditions similar to the factored accounts receivable arrangement.

The balances due under the factoring facility are summarized as follows:

	December 31, 2016		December 31, 2015	
Funds advanced:				
Factored accounts receivable	\$	449,049	\$	226,437
Purchase orders		121,974		126,005
	\$	571,023	\$	352,442

10. Advances payable

Advances payable are unsecured, due on demand and bear no terms of interest.

11. Term loans

The Company's term loans are comprised as follows:

	December 31, 2016		December 31, 2015	
(1)	\$	12,415	\$	11,287
(2)		64,798		71,900
(3)		57,390		-
	\$	134,603	\$	83,187

(1) The Company issued a note payable for a loan received during the fiscal year ended December 31, 2011. The loan bears interest at the rate of 10% per annum, is unsecured and is currently in default.

(2) On September 4, 2015, the Company received proceeds of \$90,000 which is to be repaid with interest in the amount of \$37,283 at the rate of \$432.94 per business day until November 1, 2016. The principal balance of the loan at December 31, 2015 was \$71,900.

On January 8, 2016, pursuant to the same agreement, the Company received an additional \$26,521 that, together with the prior balance owed on this agreement, is to be repaid with interest totaling \$17,640 at the rate of \$432.94 per business day until April 10, 2017.

11. Term loans (continued)

ATI AIRTEST TECHNOLOGIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2016

(Expressed in Canadian dollars)

On July 28, 2016, in addition to the amounts above, under the same agreement, the Company received an additional \$30,000 that was to be repaid with interest totaling \$17,479 at the rate of \$417.72 per business day until September 28, 2017.

As at December 31, 2016, the amount owing under this loan agreement was \$64,798. During the year ended December 31, 2016, the Company incurred interest charges of \$43,029 (2015: \$16,103) in connection with these loans.

- (3) On April 4, 2016, the Company received proceeds of \$50,000 that was to be repaid with interest totaling \$24,500 at the rate \$310.42 per business day.

On November 8, 2016, the Company received an additional \$40,000 from the lender that was to be repaid with interest totaling \$16,000 at the rate of \$310.42 per business day until October 10, 2017. These proceeds were added to the balance previously outstanding and at December 31, 2016, the principal owing on this loan was \$57,390. During the year ended December 31, 2016, the Company incurred interest charges in the amount of \$22,968 in connection with these loans.

12. Convertible Notes

On April 17, 2015, the Company issued convertible promissory notes totaling \$250,000 bearing interest at 10% per annum with the balance due on April 17, 2017. The loan principal can be converted into common shares of the Company at \$0.10 per share at any time during the term of the loan.

The Company determined that the embedded conversion feature of the loan agreement was required to be bifurcated and recorded as a derivative liability given that the potential conversion would be settled in a currency other than the Company's functional currency. The fair value of the embedded derivative liability at the inception of the loan was \$46,023 resulting in a debt discount being accreted in the Statement of Comprehensive Loss over the term of the loan using the effective interest method. During the year ended December 31, 2016, the Company recognized \$23,911 of accretion expense on these loans (2015 - \$14,053).

The convertible promissory notes are summarized as follows:

Balance at inception – April 17, 2015	\$	203,977
Accretion expense for the period		14,053
Balance, December 31, 2015		218,030
Accretion expense for the year		23,911
Balance, December 31, 2016	\$	241,941

12. Convertible Notes (continued)

ATI AIRTEST TECHNOLOGIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2016

(Expressed in Canadian dollars)

The embedded conversion feature in the convertible promissory notes accounted for as a derivative liability was measured at its fair value each reporting as follows:

Fair value of conversion feature at inception – April 17, 2015	\$	46,023
Change in fair value		(31,056)
Balance, December 31, 2015		14,967
Change in fair value		(4,262)
Balance, December 31, 2016	\$	10,705

The fair value of the embedded conversion feature was measured at its fair value using the Black-Scholes pricing model at each of December 31, 2016 and 2015 using the following assumptions:

	December 31, 2016	December 31, 2015
Exercise price - \$0.10 CDN	\$0.07	\$0.07
Share price	\$0.02	\$0.01
Expected life (yrs)	0.29	1.30
Volatility	242.38%	153.26%
Risk-free interest rate	0.73%	0.44%

13. Related Party Transactions

During the year ended December 31, 2012, the Company was loaned \$200,000 from a company controlled by a director of the Company. The loan bears interest at a rate of 24% per annum which is payable quarterly. The Company has not paid the interest due and pursuant to the loan agreement the unpaid interest of \$239,482 (2015: \$126,667) now accrues interest at a rate of 10% per annum. The loan is unsecured and is due on demand.

During the year ended December 31, 2016, the Company was advanced \$150,000 from the same company controlled by a director of the Company. This advance is unsecured, non-interest bearing and has no fixed payment terms.

At December 31, 2016, \$173,695 (2015 - \$170,440) is payable to directors for accrued services and advances. These amounts due to related parties are non-interest bearing, unsecured, and without specified terms of repayment.

As at December 31, 2016, \$284,516 (2015 - \$224,898) is included in non-current loans payable owed to the CFO and President of the Company. See Note 14 for the terms of these loans.

During the year ended December 31, 2015, a director of the Company loaned the Company \$125,000 of convertible debt payable on April 17, 2017 with interest of 10% per annum. (Note 12).

13. Related party transactions (continued)

ATI AIRTEST TECHNOLOGIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2016

(Expressed in Canadian dollars)

Key management personnel compensation

The Company's key management personnel have authority and responsibility for overseeing, planning, directing and controlling the activities of the Company and consist of the Company's Board of Directors and the Company's Executive Leadership Team. The Executive Leadership Team consists of the Chief Executive Officer and President, and Chief Financial Officer.

	December 31, 2016		December 31, 2015	
Salaries	\$	312,000	\$	312,000

14. Non-current loans

On September 30, 2014, the Company entered into agreements with several debtors to modify the terms of debt owing. Under the agreements, the Company restructured \$1,665,035 of debt which was due on demand and had interest terms between 0% to 18% per annum. The maturity date was extended to the later of August 31, 2016, or 60 days after the end of the third consecutive fiscal quarter in which the Company achieves earnings before interest, taxes, depreciation, and amortization of \$500,000. No interest will accrue on the loans until the maturity date.

The modification was accounted for as an extinguishment of the original debt and a reissuance of new debt ("New Debt").

The fair value of the New Debt at the time the agreements were entered into was estimated to be \$1,070,283 determined using an expected maturity (repayment) date of June 1, 2017. The discount rate used to determine the fair value was 18% which is management's estimate of market interest rates based on interest rates payable on unsecured debts the Company previously issued to third parties. The fair value of the New Debt recognized is highly subjective. Differences between the fair value initially recorded and the amount payable on maturity will be amortized using the effective interest rate method. At each reporting period, management will re-evaluate the anticipated maturity date and adjust the carrying value accordingly, with any changes recorded in profit or loss. The Company recognized a gain on the transaction of \$Nil (2015 -\$594,752). The Company recognized accretion expense during the year ended December 31, 2016 of \$209,892 (2015 - \$200,767). At December 31, 2016, the Company revised the expected maturity date to March 1, 2019 resulting in the liability being reduced by \$209,892 (2015 - \$148,230) with the reduction being recorded as an offset to accretion expense.

ATI AIRTEST TECHNOLOGIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2016

(Expressed in Canadian dollars)

15. Share capital

Authorized:

Unlimited common shares without par value

Private placements

During the year ended December 31, 2014, the Company entered into agreements to settle debt of \$383,526 through the issuance of 7,670,520 shares which had an estimated fair value of \$0.05 per share. The Company issued the shares during the year ended December 31, 2015.

As at December 31, 2014, the Company has received \$132,500 pursuant to binding share subscription agreements. During the year ended December 31, 2015, the Company completed the issuance of 2,650,000 units at \$0.05 per unit relating to these subscriptions. 500,000 of these units were subscribed to by a director of the Company for total proceeds of \$25,000. Each unit consisted of one common share, and one common share purchase warrant. Each warrant is exercisable into one common share of the Company at \$0.11 per share and expire on December 11, 2017. The warrants have an exercise price that differs from the Company's functional currency and are therefore recorded as a derivative liability. The warrants fair value at issuance was \$28,521 determined using the Black-Scholes Option Pricing Model with the following assumptions: expected life of warrants: 2 years; volatility: 170%; risk-free interest rate: 0.48% and dividend yield: 0%.

Stock options

The Company's Board of Directors may, from time to time, grant stock options, subject to regulatory terms and approval, to employees, officers, directors and consultants. The exercise price of each option can be set at no less than the closing market price of the common shares on the TSX-V on the date of grant. Options terminate 30 days following the termination of employment. Vesting and the option terms are set at the discretion of the Board of Directors at the time the options are granted.

The following is a summary of the Company's stock option activity:

	Number	Weighted Average Exercise Price
Options outstanding and exercisable at December 31, 2016, 2015 and 2014	1,000,000	\$ 0.10

ATI AIRTEST TECHNOLOGIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2016

(Expressed in Canadian dollars)

15. Share capital (continued)**Warrants**

The following is a summary of the Company's warrant activity:

	Number of Warrants	Weighted Average Exercise Price
Outstanding at December 31, 2014	2,514,664	\$ 0.20
Issued	2,650,000	0.11
Outstanding at December 31, 2016 and 2015	5,164,664	\$ 0.15

Warrants outstanding at December 31, 2016 were as follows:

Exercise Price	Expiry Date	Number of Warrants Outstanding and Exercisable
CAD 0.20	March 12, 2017	2,514,664
CAD 0.11	December 11, 2017	2,650,000
		5,164,664

The weighted average remaining contractual life of warrants outstanding as of December 31, 2016 was 0.58 years (December 31, 2015 – 1.58 years).

On March 12, 2017, 2,514,664 warrants expired unexercised.

The Company's warrants have been recorded as a derivative liability due to their exercise prices being denominated in a currency other than the Company's functional currency. The changes in the fair value of this derivative liability is as follows:

Balance, December 31, 2014	\$	29,627
Fair value of warrants issued		28,521
Change in fair value for the year		(20,771)
Balance, December 31, 2015		37,377
Change in fair value for the year		(21,986)
Balance, December 31, 2016	\$	15,391

ATI AIRTEST TECHNOLOGIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2016

(Expressed in Canadian dollars)

15. Share capital (continued)

Warrants (continued)

The fair value of the warrants was measured at its fair value using the Black-Scholes pricing model at each of December 31, 2016 and 2015 using the following weighted average assumptions:

	December 31, 2016		December 31, 2015	
Exercise price	\$	0.15	\$	0.15
Share price	\$	0.03	\$	0.02
Expected life (yrs.)		0.73		1.25
Volatility		236%		186%
Risk-free interest rate		0.89%		0.73%

Share base payment reserve

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

Foreign currency translation reserve

The foreign currency translation reserve records unrealized exchange differences arising on translation from the Company's functional currency to its presentation currency.

16. Segmented information

During the year ended December 31, 2016, \$2,700,542 (2015 - \$2,668,461) of the Company's revenue was earned from customers domiciled in the USA.

For the year ended December 31, 2016, sales to two customers represented approximately 30% and 4% (2015 - 33% and 12%) of the Company's revenue.

ATI AIRTEST TECHNOLOGIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2016

(Expressed in Canadian dollars)

17. Supplementary information

Presentation of the Company's operating expenses by nature versus function for the years ended December 31, 2016 and 2015 is as follows:

	2016	2015
OPERATING EXPENSES		
General and administrative:		
Amortization	\$ 887	\$ 1,115
Automotive	9,958	21,114
Bad debt	6,324	-
Freight	30,386	31,265
Office and general	44,687	40,488
Professional and management fees	40,575	51,349
Regulatory fees	13,601	19,808
Rent and property tax	61,042	60,453
Salaries and benefits	414,456	387,186
Total general and administrative	\$ 621,916	\$ 612,778
Business development and marketing:		
Advertising	\$ 2,701	\$ 2,260
Auto	15,739	12,892
Business promotion	7,309	12,372
Meals and entertainment	5,414	2,718
Office and general	689	8,781
Salaries and benefits	608,356	556,638
Sales and consulting	30,000	-
Telephone	8,520	-
Trade shows	11,471	16,971
Travel	14,750	15,876
Total business development and marketing	\$ 704,949	\$ 628,508

ATI AIRTEST TECHNOLOGIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2016

(Expressed in Canadian dollars)

18. Financial Instruments

The Company's financial instruments are exposed to certain financial risks, including currency risk, credit risk, interest rate, liquidity and funding risk.

Foreign exchange risk

Foreign 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 is exposed to currency risk as it incurs expenditures that are denominated in Canadian dollars while its functional currency is the United States dollar.

The Company has net financial liabilities of approximately \$2,750,521 (2015: \$2,892,513) denominated in Canadian dollars. A 10% change in the US dollar versus the Canadian dollar would change the Company's comprehensive loss by approximately \$250,000 (2015: \$263,000).

The Company does not use hedges or derivative instruments to reduce its exposure to currency risk.

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 has a planning and budgeting process in place to help determine the funds required to support the Company's normal operating requirements on an ongoing basis. At present, the Company does not have sufficient funds to pay its existing creditors or meet its short-term business requirements.

Historically, the Company's main sources of funding have been the issuance of equity securities for cash, debt instruments and bridge financing. The Company's access to financing is always uncertain. There can be no assurance of continued access to significant equity funding. Liquidity risk is considered to be high.

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company is exposed to moderate credit risk due to concentration of the majority of its trade receivables with a small number of customers. Four customers represent approximately 63% of trade receivables. Management performs a periodic assessment of the credit worthiness of customers to reduce exposure to credit risk.

Fair value

The fair value of the Company's financial assets and liabilities approximates their carrying amount. Assumptions used to determine the fair value on initial recognition of the non-current loans is disclosed in Note 14.

ATI AIRTEST TECHNOLOGIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2016

(Expressed in Canadian dollars)

19. Capital Management:

The Company's principal sources of capital are cash from operations and from the issuance of debt and equity securities. The Company manages its cash, accounts receivable and loans in conjunction with budgeted or expected capital needs. The Company's objective when managing capital is to maintain sufficient liquidity to continue to meet ongoing expenditure and operational needs.

The Company manages the capital structure and makes adjustments to capital management strategies based on economic conditions and as risk characteristics of its capital change. To maintain or adjust the capital structure, the Company may consider the issuance of shares, factoring additional receivables, debt issues or other management policies. Management plans additional funding in 2017 to assist with current working capital needs. The funding may be debt or equity or a combination of both.

The Company is not subject to externally imposed capital requirements other than under factoring arrangements as described in Note 9.

20. Income taxes

Income tax recovery attributable to net loss before income tax recovery differs from the amounts computed by applying the combined Canadian federal and provincial income tax rate to income before income taxes as follows:

	2016		2015
Net income (loss)	\$ (727,916)	\$	95,894
Statutory tax rate	26%		26%
Expected income tax expense (recovery)	(189,000)		25,000
Tax effect of:			
Permanent differences and other	16,000		(99,000)
Expiration of non-capital losses	-		126,000
Change in unrecognized deferred tax assets	173,000		(52,000)
Income tax recovery	\$ -	\$	-

The Company has the following deductible temporary differences for which no deferred tax asset has been recognized:

	2016		2015
Non-capital loss carry-forwards	\$ 1,725,000	\$	1,552,000
Equipment	47,000		47,000
Unrecognized deferred tax assets	(1,772,000)		(1,599,000)
	\$ -	\$	-

As at December 31, 2016, the Company has approximately \$6,600,000 (2015 - \$5,971,500) of non-capital losses in Canada that may be used to offset future taxable income, expiring from 2026 to 2036.

Tax attributes are subject to review, and potential adjustment, by tax authorities.