

**ATI AIRTEST TECHNOLOGIES INC.**

**CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

**JUNE 30, 2016**

**(Expressed in Canadian dollars)**

**(Unaudited)**

**NOTICE OF NO AUDITOR REVIEW OF THE CONSOLIDATED  
INTERIM FINANCIAL STATEMENTS**

The accompanying consolidated interim financial statements of ATI Airtest Technologies Inc. (the "Company") have been prepared by and are the responsibility of the Company's management. The Company's Audit Committee and Board of Directors has reviewed and approved these condensed consolidated interim financial statements.

The Company's independent auditor has not performed a review of these consolidated interim financial statements.

**ATI AIRTEST TECHNOLOGIES INC.**

**CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION**  
**(Expressed in Canadian dollars)**  
(unaudited)

	Note	June 30, 2016	December 31, 2015
<b>ASSETS</b>			
<b>Current</b>			
Accounts receivable	4	\$ 362,177	\$ 415,456
Inventory	5	314,528	324,906
Prepaid expenses		2,828	13,500
		679,533	753,862
<b>Non-current</b>			
Equipment	6	4,999	4,955
		\$ 684,532	\$ 758,817
<b>LIABILITIES</b>			
<b>Current</b>			
Cash deficiency		\$ 20,385	\$ 41,136
Accounts payable and accrued liabilities	7	1,191,446	1,192,962
Loans and advances	8	991,860	896,038
Convertible debt notes	8	74,014	74,014
Due to related parties	11	179,666	170,440
		2,457,371	2,374,590
<b>Non-current</b>			
Loans	10	1,167,910	1,167,910
Convertible loans		218,030	218,030
Convertible debt derivative liability	9	14,967	14,967
Warrant derivative liability	10	37,377	37,377
		3,895,655	3,812,874
<b>SHAREHOLDERS' DEFICIENCY</b>			
Share capital	9	9,675,786	9,675,786
Reserves	9	287,978	287,978
Deficit		(13,174,887)	(13,017,821)
		(3,211,123)	(3,054,057)
		\$ 684,532	\$ 758,817

Subsequent events (Note 15)

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

**APPROVED ON BEHALF OF THE BOARD**

\_\_\_\_\_  
/s/ "George Graham"

\_\_\_\_\_  
/s/ "Darrel Taylor"

**ATI AIRTEST TECHNOLOGIES INC.**

**CONSOLIDATED INTERIM STATEMENTS OF COMPREHENSIVE LOSS**

**THREE MONTHS ENDED JUNE 30, 2016 AND 2015**

**(Expressed in Canadian dollars)**

(unaudited)

	Note	2 <sup>nd</sup> Quarter 2016	2 <sup>nd</sup> Quarter 2015	YTD 2016	YTD 2015
<b>PRODUCT SALES</b>		\$ 741,012	\$ 738,450	\$ 1,332,782	\$ 1,785,135
<b>COST OF GOODS SOLD</b>		401,344	458,085	747,912	1,136,032
<b>GROSS PROFIT</b>		339,668	280,365	584,869	649,103
<b>EXPENSES</b>					
General and administrative	13	160,488	163,950	283,568	344,917
Business development and marketing	13	164,177	148,875	340,937	314,131
Factoring fees and finance charges	8	69,067	27,385	117,407	76,528
Research and development		23	3,755	23	3,755
		(393,755)	(343,965)	(741,935)	(739,331)
<b>NET LOSS &amp; COMPREHENSIVE (LOSS) FOR THE PERIOD</b>		(54,087)	(63,600)	(157,066)	(90,228)
Loss per shares – basic and diluted	9	\$ (0.00)	\$ (0.00)	\$ (0.00)	\$ (0.00)
Weighted average number of common shares outstanding – basic & diluted	9	34,705,581	34,705,581	34,705,581	31,569,511

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

ATI AIRTEST TECHNOLOGIES INC.

CONSOLIDATED INTERIM STATEMENT OF CHANGES IN SHAREHOLDERS' DEFICIENCY

THREE MONTHS ENDED JUNE 30, 2016 AND 2015

(Expressed in Canadian dollars)

(unaudited)

	Share capital		Reserves				Total shareholders' deficiency	
	Number of shares	Amount \$	Subscriptions receivable \$	Obligation to issue shares \$	Share based Payment \$	Foreign currency translation \$		Deficit \$
<b>Balance, December 31, 2014</b>	24,385,061	9,188,281	-	516,026	1,315,182	(452,760)	(13,113,715)	(2,546,986)
Shares issued for private placement	2,650,000	132,500	-	(132,500)	-	-	-	-
Shares issued for debt	7,670,520	383,526	-	(383,526)	-	-	-	-
Comprehensive loss for the period	-	-	-	-	-	-	(90,228)	(90,228)
<b>Balance, June 30, 2015</b>	23,785,061	9,704,307	-	-	1,315,182	(452,760)	(13,203,943)	(2,637,214)
<b>Balance, December 31, 2015</b>	34,705,581	9,675,786	-	-	1,315,182	(1,027,204)	(13,017,821)	(3,054,057)
Comprehensive loss for the period	-	-	-	-	-	-	(157,066)	(157,066)
<b>Balance, June 30, 2016</b>	34,705,581	9,675,786	-	-	1,315,182	(1,027,204)	(13,174,887)	(3,211,123)

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

**ATI AIRTEST TECHNOLOGIES INC.**

**CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS**

**THREE MONTHS ENDED JUNE 30, 2016 AND 2015**

**(Expressed in Canadian dollars)**

(unaudited)

	2 <sup>nd</sup> Quarter 2016	2 <sup>nd</sup> Quarter 2015	YTD 2016	YTD 2015
<b>CASH PROVIDED BY (USED IN):</b>				
<b>Operating Activities:</b>				
Net loss for the period	\$ (54,087)	\$ (63,600)	\$ (157,066)	\$ (90,228)
Items not involving cash:				
Amortization	248	324	(44)	648
Changes in non-cash working capital items:				
Accounts receivable	11,115	206,117	53,279	(1,720)
Inventory	(13,334)	(4,540)	10,378	4,120
Interest payable	16,250	-	32,500	20,000
Prepaid expenses	-	-	10,672	218
Interest Payable on Factoring	8,239	8,138	8,239	8,138
Accounts payable and accrued liabilities	(35,932)	(188,146)	(1,516)	(141,843)
Net cash used in operating activities	(67,501)	(41,707)	(43,558)	(200,667)
<b>Financing Activities:</b>				
Proceeds from share issuance	-	-	-	516,026
Share subscriptions received	-	-	-	(516,026)
Loan proceeds (repayment)	54,678	26,917	55,083	227,096
Advances from related parties	3,523	(14,503)	9,226	(9,208)
Net cash from financing activities	58,201	12,414	64,309	217,888
Increase (decrease) in cash	(9,300)	(29,293)	20,751	17,221
Cash (deficiency), beginning of period	(11,085)	12,404	(41,136)	(34,110)
Cash (deficiency), end of period	\$ (20,385)	\$ (16,889)	\$ (20,385)	\$ (16,889)

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

# ATI AIRTEST TECHNOLOGIES INC.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2016

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(Expressed in Canadian dollars, except where noted)

## 1. Business activities

ATI Airtest 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”).

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. They do not include adjustments, if any, that may be required for the realization of assets or the settlement of liabilities should the Company be unable to continue as a going concern. The Company has experienced significant operating losses since its inception and has a working capital deficiency at June 30, 2016 of \$1,777,838 and has accumulated a deficit of \$13,174,887 to date. The Company has financed its operations through equity, factoring loans, third party loans, related party advances and deposits. Future operations are dependent upon the Company’s ability to obtain additional financing, continued support of existing creditors and lenders, continued financial support from related parties, and ultimately attaining profitable operations. The realization and settlement of amounts reported for assets is dependent upon market acceptance of the Company’s products and services and generation of future profitable operations.

Management believes that the Company can meet financial requirements through equity financing, sales growth, support of related parties, and bridge financing for at least the ensuing 12 month period. There is no certainty that the Company will be able to acquire sufficient financing or increase sales to levels necessary to achieve profitability. If the Company is unable to achieve profitable operations and is unable to settle payment of liabilities with creditors and related parties, the going concern assumption may not be sustainable. It is reasonable to assume that if the going concern assumption cannot be sustained that material adjustments to the carrying value of assets and liabilities may be required.

## 2. Statement of compliance and conversion to International Financial Reporting Standards

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”) and are in full compliance with IAS 34.

The consolidated financial statements of the Company have been prepared on an accrual basis and are based on historical costs, modified where applicable. The consolidated financial statements are presented in Canadian dollars unless otherwise noted.

## 3. Significant accounting policies

### Basis of consolidation

The Company consolidates all entities under its control. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of controlled entities are included in the consolidated financial statements from the date that control commences until the date that control ceases. Any changes in the effective ownership interest, where control continues, are recorded as acquisition or disposals through equity.

# ATI AIRTEST TECHNOLOGIES INC.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2016

(Expressed in Canadian dollars, except where noted)

The Company has 3 inactive wholly owned subsidiaries:

These consolidated financial statements include the accounts 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.

## **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 depreciation 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:

Asset	Basis	Rate
Computer hardware	declining-balance	30%
Office furniture and fixtures	declining-balance	20%
Assembly equipment	declining-balance	20%
Testing equipment	declining-balance	30%



**3. Significant accounting policies (continued)****Revenue recognition**

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

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

**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.

**Research and development**

Research and development costs are expensed as incurred unless development costs meet the criteria for capitalization: a) The technical feasibility of completing the intangible asset so that it will be available for use or sale b) The intention to complete the intangible asset and use or sell it c) The ability to use or sell the intangible asset; d) How the intangible asset will generate probable future economic benefits; e) The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and f) The ability to measure reliably the expenditure attributable to the intangible asset during its development.

The Company amortizes costs, commencing with commercial production, over the expected future benefit period based upon quantities delivered compared to expected levels contracted to be delivered.

**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 income (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.

**3. Significant accounting policies (continued)****Impairment of assets (continued)**

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

**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 option 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.

**Loss per share**

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

Diluted loss per share amounts are computed similarly to basic 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.

**Significant accounting judgments, estimates and assumptions**

The preparation of the Company's consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities and contingent assets and liabilities and reported amounts of revenues and expenses at the date of the financial statements and during the reporting period. Estimates and assumptions are made and continuously evaluated based upon management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Areas requiring a significant degree of management estimation relate to the determination of the useful lives of property, plant and equipment, the recoverability of the carrying value of assets, recoverability of receivables, realizable value of inventory, fair value measurements for financial instruments, stock-based compensation and other equity-based payments, warranty accruals, cost allocations, and the measurement of deferred tax assets and liabilities. Management attempts to use all current and relevant information available in making estimates, however actual results may differ substantially from those estimates.

### 3. Significant accounting policies (continued)

#### **Significant accounting judgments, estimates and assumptions: (continued)**

Areas requiring a significant degree of management judgment include reviewing for indicators of impairment of intangible assets, determining functional currency, determining cost centers and cash generating units for impairment, selection of fair value models, and the potential exposure related to tax filing positions or non-compliance.

#### **Income taxes:**

Current income tax assets and liabilities for the period and as at the year end 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 activities.

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 income tax is provided using the asset and liability 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 only 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.

#### **Functional currency and 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. Nonmonetary 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.

**3. Significant accounting policies (continued)****Functional currency and foreign currency translation (continued)**

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.

**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.

# ATI AIRTEST TECHNOLOGIES INC.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2016

(Expressed in Canadian dollars, except where noted)

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### 3. Significant accounting policies (continued)

#### Financial Instruments: (continued)

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.

#### Recent accounting pronouncements, not yet adopted:

At the date of authorization of these financial statements, IFRS 9 “Financial Instruments” has not been early adopted and is not expected to have a material effect on the Company’s future results and financial position. The effective date of IFRS 9 has not yet been determined.

### 4. Accounts receivable

	June 30, 2016	December 31, 2015
Trade receivables	\$ 90,811	\$ 68,136
Trade receivables factored (Note 8)	275,310	351,264
Allowance for doubtful amounts	(3,944)	(3,944)
	\$ 362,177	\$ 415,456

## ATI AIRTEST TECHNOLOGIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2016

(Expressed in Canadian dollars, except where noted)

### 5. Inventory

Inventory at year-end consists of the following:

	June 30, 2016	December 31, 2015
Finished goods	\$ 85,074	\$ 89,204
Work in progress	131,088	120,739
Raw materials and component parts	98,366	114,963
	\$ 314,528	\$ 324,906

For the three-month period ended June 30, 2016, inventory recognized as an expense in cost of sales amounted to \$368,513 (2015 - \$422,658). As at June 30, 2016, the Company anticipates that the net inventory will be realized within one year.

### 6. Equipment

	Office furniture & fixtures	Computer hardware	Testing equipment	Assembly equipment	Total
<b>Cost:</b>					
At December 31, 2015	\$ 39,765	\$ 73,255	\$ 17,967	\$ 5,793	\$ 136,780
Additions/disposals	-	-	-	-	-
At June 30, 2016	\$ 39,765	\$ 73,255	\$ 17,967	\$ 5,793	\$ 136,780
<b>Depreciation:</b>					
At December 31, 2015	\$ 36,111	\$ 71,814	\$ 17,721	\$ 5,638	\$ 131,284
Charge for the period	333	114	35	15	497
At June 30, 2016	\$ 36,444	\$ 71,928	\$ 17,756	\$ 5,653	\$ 131,781
<b>Net book value:</b>					
At December 31, 2015	\$ 3,299	\$ 1,301	\$ 216	\$ 139	\$ 4,955
At June 30, 2016	\$ 3,321	\$ 1,327	\$ 211	\$ 140	\$ 4,999

## ATI AIRTEST TECHNOLOGIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2016

(Expressed in Canadian dollars, except where noted)

### 7. Accounts payable and accrued liabilities

	June 30, 2016	December 31, 2015
Trade payables	819,254	842,308
Due to government agencies	140,770	121,034
Payroll accrual and vacation payable	1,640	1,312
Accrued obligations	229,782	228,308
	\$ 1,191,446	\$ 1,192,962

### 8. Loans, advances and convertible debt

#### a) Loans and advances

	June 30, 2016	December 31, 2015
<b>i) Factoring loan</b> , secured against receivables with full recourse for uncollectable accounts	\$ 363,509	\$ 352,442
<b>ii) Loans and advances</b> , unsecured, due on demand:		
interest at 10% per annum	11,287	11,287
non-interest bearing	128,293	133,743
interest at 20% per annum	380,577	326,667
interest at >20% per annum	108,194	71,899
	\$ 991,860	\$ 896,038

#### i) Factoring loan facility:

During July 2004, the Company entered into a lending arrangement whereby the Company may borrow up to 80% of its accounts receivables that are less than 90 days overdue. In addition, the Company may request loans or advances against purchase orders received from customers. The specified trade receivables are pledged as security for the arrangement, with full recourse against the Company. The loans bear interest at 1.5% per month for the first 60 days outstanding, 3.5% per month for the period outstanding greater than 61 days and up to 90 days, and 5% per month for the period outstanding greater than 90 days. There is a 3% processing charge for all accounts receivable factored and advances received.

**8. Loans , advances and convertible debt (continued)**

i) Factoring Loan (continued):

During October 2013, the Company entered into a lending arrangement whereby the Company may borrow up to 85% of its trade receivables that are less than 90 days overdue. In addition, the Company may request loans or advances against purchase orders received from customers. The specified trade receivables are pledged as security for the arrangement, with full recourse against the Company. The loans bear interest at 1.5% per month for the first 30 days outstanding, and 0.05% per day after that until the invoice is paid to the lender. The amount due to the lender at June 30, 2014 includes current purchase orders for orders in progress.

The Company does not record a sale of the trade receivable or offset factored trade receivables to the related liability as the Company retains all the risks and rewards of ownership.

ii) The Company has received a number of loans and advances since 2007 from private lenders. All of the amounts are due on demand and are effectively in default. The Company is working with the parties to settle loans through new funding, debt settlements and other arrangements. To date, none of the counterparties have taken legal action to recover the funds, however demands for payment have been made.

Until the Company arranges new equity funding or can settle the obligations, the loans and advances will continue in default and accrue interest, where applicable. Uncertainty remains over timing and amount of ultimate settlement.

b) Convertible debt notes:

From June 2004 to January 2005, the Company issued convertible debt instruments. The remaining debt instruments are unsecured and bear no interest. Each of the instruments have matured and are now repayable on demand. At June 30, 2016, the outstanding balance of the demand notes was \$74,014 (December 31, 2015 – \$74,014).

**9. Share capital**

a) Authorized:

Unlimited common shares without par value

b) Issued and outstanding:

34,705,581 common shares issued and outstanding

2,700,000 shares held in treasury



# ATI AIRTEST TECHNOLOGIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2016

(Expressed in Canadian dollars, except where noted)

## 9. Share capital (continued)

### c) 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 subsequent to the year end. The Company recognized a decrease in liabilities of \$383,526 and a corresponding obligation to issue a fixed number of shares.

During the year ended December 31, 2014, the Company issued 600,000 shares with a fair value of \$30,000 for due diligence fees.

As at December 31, 2014, the Company had received \$132,500 (2013 - \$100,000) pursuant to binding share subscription agreements. In the first quarter of 2015, the Company completed the issuance of 2,650,000 shares relating to these subscriptions.

### (d) 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.

As at June 30, 2016, 1,000,000 options with an exercise price of \$0.10 and expiring on November 5, 2017 were outstanding and exercisable.

### (e) Warrants

The following table summarizes information about warrants for the year:

	June 30, 2016		December 31, 2015	
	Warrants	Weighted average exercise price	Warrants	Weighted average exercise price
Outstanding, beginning of period	3,839,664	\$ 0.17	2,514,664	\$ 0.20
Issued	-	-	1,325,000	0.10
Expired	-	-	-	-
Outstanding, end of year	3,839,664	\$ 0.17	3,839,664	\$ 0.17

As at June 30, 2016, the warrants have a weighted average exercise life of 0.7 years.

**Share base payment reserve**

The share-based payment reserve records items recognized as stock-based compensation expense and other sharebased 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.

**Derivative liability**

The derivative financial liability consists of the fair value of share purchase warrants that have exercise prices that differ from the functional currency of the Company and are within the scope of IAS 32 "Financial Instruments: Presentation".

The fair values of these warrants as at December 31, 2015 were estimated using the Black-Scholes Option Pricing Model using the following inputs; expected life of warrants: 1.25 years; volatility: 186%; risk-free interest rate: 0.73% and dividend yield: 0%.

The fair values of these warrants as at December 31, 2014 were estimated using the Black-Scholes Option Pricing Model using the following inputs; expected life of warrants: 2.25 years; volatility: 115%; risk-free interest rate: 1.0% and dividend yield: 0%.

**10. Non-current loans**

(a) 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 with interest terms between 0% to 18% per annum to modify the maturity date 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 has been 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 \$594,752. The Company recognized accretion expense during the year ended December 31, 2015 of \$200,767 (2014 - \$45,090). At December 31, 2015, the Company revised the expected maturity date to March 1, 2018 resulting in the liability being reduced by \$148,230 with the reduction being recorded as an offset to accretion expense.

(b) On April 17, 2015, the Company loaned \$250,000 at 10% per annum 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 terms of the loan.

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Of this \$250,000, \$125,000 was loaned from a director of the Company (Note 10). As the note is issued in a currency different from the Company's functional currency, the conversion feature is treated as a derivative liability and recorded at fair value. The value of the derivative liability at December 31, 2015 was \$14,967 (April 17, 2015 - \$46,023) resulting in a gain due to change in fair value of \$31,056. The residual amount on issuance of \$203,977 was recorded to the loan resulting in an effective interest rate of 21%. The Company recognized accretion expense on these loans of \$14,053 during the year ended December 31, 2015.

## 11. Related party transactions

The Company entered into the following transactions with related parties:

- (a) During the second quarter of 2016, the Company paid or accrued salaries to directors of \$nil (2015 - \$nil). These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.
- (b) At June 30, 2016, \$179,666 (December 31, 2015 - \$170,440) is payable to directors for accrued services and advances.

Amounts due to related parties are in the normal course of operations, except where specifically stated. They are non-interest bearing, unsecured, and without terms of repayment.

### 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 CEO and President, and Chief Financial Officer (CFO)

	Quarter ended	
	June 30, 2016	June 30, 2015
Salaries	\$ 78,000	\$ 78,000
Total	\$ 78,000	\$ 78,000

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## 12. Segmented information

The Company operates in one reportable operating segment being the manufacture and sale of gas detection equipment. Substantially all of the Company's assets are located in Canada. The Company sells its products primarily in Canada and the United States. Geographic information with respect to sales, based on the location of the customer, is as follows:

	June 30, 2016	June 30, 2015
U.S.A.	\$ 442,913	\$ 294,571
Canada	283,098	421,332
Other	15,001	22,547
	\$ 741,012	\$ 738,450

## 13. Supplementary information

Presentation of the Company's operating expenses by nature versus function for the quarters ended June 30, 2016 and 2015 is as follows:

	2 <sup>nd</sup> Quarter 2016	2 <sup>nd</sup> Quarter 2015	YTD 2016	YTD 2015
<b>OPERATING EXPENSES</b>				
<b>General and administrative:</b>				
Amortization	\$ 249	\$ 324	\$ 497	\$ 648
Automotive	1,245	4,570	3,189	8,678
Bank charges and interest	14,306	14,826	25,962	41,076
Foreign exchange (gain) loss - realized	-	-	(42,813)	-
Freight	7,041	7,918	14,739	14,980
Office and general	10,707	11,278	23,761	23,528
Professional and management fees	8,660	7,217	17,465	15,154
Regulatory fees	3,001	5,162	10,832	13,588
Rent and property tax	12,686	15,037	28,105	30,018
Salaries and benefits	102,594	97,618	201,832	197,247
Total general and administrative	160,488	163,950	283,568	344,917
<b>Business development and marketing:</b>				
Advertising	573	553	1,184	1,098
Auto	3,233	3,024	5,320	6,041
Business promotion	653	4,654	2,661	7,797
Meals and entertainment	933	31	2,867	1,564
Office and general	2,109	2,091	4,037	4,132
Salaries and benefits	154,773	134,212	306,392	270,991
Trade shows	57	130	11,471	13,691
Travel	1,846	4,180	7,005	8,817
Total business development and marketing	\$ 164,177	\$ 148,875	\$ 340,937	\$ 314,131

**14. Financial Instruments**

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

**Currency 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 does not use hedges or derivative instruments to reduce its exposure to currency risk.

**Liquidity and funding risk**

The Company's approach to managing liquidity risk is to attempt to manage cash flows so that the Company will have sufficient available resources to meet operating liabilities as they are due. Due to Company's financial position and current economic conditions in capital and selling markets, the Company has a high risk associated with liquidity. The Company does not hold complex financial instruments or significant long-term assets. The Company uses a factoring agent to provide immediate liquidity from its accounts receivable and certain purchase orders. This is a high cost of capital that will only be relieved by equity infusion. At June 30, 2016, all of the Company's non-derivative liabilities are due on demand.

Funding risk is the risk that the Company may not be able to raise equity or alternative financing in a timely manner and on terms acceptable to management. There are no assurances that such financing will be available when, and if, the Company requires additional equity financing. Under economic conditions for the Company funding risk is considered high.

**Credit risk**

The Company is exposed to moderate credit risk due to concentration of the majority of its accounts receivable with a small number of customers. Four customers represent approximately 58% (December 31, 2015 – 55%) of accounts receivable. 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 the carrying amount.

**15. 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 the remainder of 2015 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.

**16. Subsequent Events**

The company did not have any subsequent events to the second quarter of 2016.