

ATI AIRTEST TECHNOLOGIES INC.
CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018
(Expressed in Canadian dollars)



DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED PROFESSIONAL ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the shareholders of ATI Airtest Technologies Inc.

Opinion

We have audited the consolidated financial statements of ATI Airtest Technologies Inc. (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2018 and 2017, and the consolidated statements of comprehensive loss, changes in shareholders' deficiency and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

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

Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audits of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 of the financial statements, which indicates that the Company has accumulated losses totalling \$15,418,438 and has a working capital deficiency of \$3,945,342. As stated in Note, these conditions, along with other matters as set forth in Note 1, indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. The other information comprises the information included in Management's Discussion and Analysis.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.



DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED PROFESSIONAL ACCOUNTANTS

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Cherry Ho.

A handwritten signature in dark ink that reads 'DMCL'.

DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED PROFESSIONAL ACCOUNTANTS
Vancouver, BC

April 30, 2019

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

	Note	December 31, 2018	December 31, 2017
ASSETS			
Current			
Cash		\$ -	\$ 2,317
Accounts receivable	5	319,204	322,369
Inventory	6	154,473	146,863
Prepaid expenses		11,344	6,314
		485,021	477,863
Non-current			
Equipment		2,727	3,319
		\$ 487,748	\$ 481,182
LIABILITIES			
Current			
Cash deficiency		\$ 11,306	\$ -
Accounts payable and accrued liabilities	7, 12	1,624,228	1,482,698
Factoring facility	8	350,649	416,381
Advances payable	9	207,756	207,756
Term loans	10	128,418	76,830
Convertible notes	11,20	250,000	250,000
Due to related parties	12,20	1,858,006	1,252,427
		4,430,363	3,686,092
Non-current			
Loans	12, 13	1,351,632	1,130,489
		5,781,995	4,816,581
SHAREHOLDERS' DEFICIENCY			
Share capital	14	9,675,786	9,675,786
Reserves	14	448,405	133,333
Deficit		(15,418,438)	(14,144,518)
		(5,294,247)	(4,335,399)
		\$ 487,748	\$ 481,182

Subsequent Event (Note 20)

Contingency (Note 21)

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	2018	2017
PRODUCT SALES	15	\$ 2,703,073	\$ 3,572,071
COST OF GOODS SOLD	6	1,733,790	2,231,952
GROSS PROFIT		969,283	1,340,119
EXPENSES			
General and administrative	16, 21	632,891	773,497
Business development and marketing	16	762,412	745,348
Research and development		3,714	14,456
		(1,399,017)	(1,533,301)
OTHER ITEMS			
Accretion	11, 13	(221,143)	(217,430)
Interest and financing fees	8,10,11,12	(238,174)	(549,942)
Foreign exchange		(393,792)	248,869
Write-down of inventory		(2,039)	-
Gain on loan extinguishment	13	-	246,791
Write off of accounts payable		10,962	40,017
Gain on derecognition and revaluation of derivative liability	11, 14	-	26,096
NET LOSS FOR THE YEAR		(1,273,920)	(398,781)
OTHER COMPREHENSIVE LOSS			
Translation to presentation currency		315,072	(220,304)
COMPREHENSIVE LOSS		\$ (958,848)	\$ (619,085)
Loss per shares – basic and diluted		\$ (0.03)	\$ (0.02)
Weighted average number of common shares outstanding			
– basic and diluted		34,705,581	34,705,581

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	Reserves		Deficit	Total shareholders' deficiency
				Share based payment	Foreign currency translation		
Balance, December 31, 2016		34,705,581	\$ 9,675,786	\$ 1,315,182	\$ (961,545)	\$ (13,745,737)	\$ (3,716,314)
Foreign currency translation adjustment		-	-	-	(220,304)	-	(220,304)
Net loss for the year		-	-	-	-	(398,781)	(398,781)
Balance, December 31, 2017		34,705,581	9,675,786	1,315,182	(1,181,849)	(14,144,518)	(4,335,399)
Foreign currency translation adjustment		-	-	-	315,072	-	315,072
Net loss for the year		-	-	-	-	(1,273,920)	(1,273,920)
Balance, December 31, 2018		34,705,581	\$ 9,675,786	\$ 1,315,182	\$ (866,777)	\$ (15,418,438)	\$ (5,294,247)

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,

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss for the year	\$ (1,273,920)	\$ (398,781)
Items not involving cash:		
Accretion	221,143	217,430
Accrued interest expense	10,238	272,841
Amortization	592	765
Bad debts	-	114,065
Foreign exchange	315,072	(220,304)
Change in fair value of derivative liability	-	(26,096)
Gain on debt extinguishment	(10,962)	-
Gain on loan extinguishment	-	(246,791)
Gain on reversal of accounts payable	-	(40,017)
Write-down of inventory	2,039	-
Changes in non-cash working capital items:		
Accounts receivable	3,165	125,562
Inventory	(9,649)	51,537
Prepaid expenses	(5,030)	(3,359)
Accounts payable and accrued liabilities	152,492	159,467
Factoring facility	(65,732)	(154,642)
Net cash flows used in operating activities	(660,552)	(148,323)
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash received from related parties	650,231	212,050
Repayments to related parties	(55,000)	-
Loan proceeds	159,756	85,000
Loan repayments	(108,058)	(138,413)
Net cash flows provided by financing activities	646,929	158,637
Change in cash for the year	(13,623)	10,314
Cash (deficiency), beginning of the year	2,317	(7,997)
Cash (deficiency), end of the year	\$ (11,306)	\$ 2,317

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, 2018

(Expressed in Canadian dollars)

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

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”) 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, 2018, the Company has accumulated losses totaling \$15,418,438 and has a working capital deficiency of \$3,945,342 (2017: \$3,208,229) 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), Airtest 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, 2018

(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, 2018

(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.

The Company adopted 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. The adoption of IFRS 15 resulted in no impact to the opening retained earnings on January 1, 2018.

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.

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. For the years presented, the effect of outstanding options and warrants was either anti-dilutive or they were not "in-the-money". Consequently, basic loss per share equals diluted loss per share.

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.

ATI AIRTEST TECHNOLOGIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2018

(Expressed in Canadian dollars)

3. Significant accounting policies (continued)

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.

Financial Instruments

The following is the Company's new accounting policy for financial instruments under IFRS 9:

(i) Classification

The Company classifies its financial instruments in the following categories: at fair value through profit and loss ("FVTPL"), at fair value through other comprehensive income (loss) ("FVTOCI") or at amortized cost. The Company determines the classification of financial assets at initial recognition. The classification of debt instruments is driven by the Company's business model for managing the financial assets and their contractual cash flow characteristics. Equity instruments that are held for trading are classified as FVTPL. For other equity instruments, on the day of acquisition the Company can make an irrevocable election (on an instrument-by-instrument basis) to designate them as at FVTOCI. Financial liabilities are measured at amortized cost, unless they are required to be measured at FVTPL (such as instruments held for trading or derivatives) or if the Company has opted to measure them at FVTPL.

The Company completed a detailed assessment of its financial assets and liabilities as at 1 January 2018. The following table shows the original classification under IAS 39 and the new classification under IFRS 9:

Financial assets/liabilities	Original classification IAS 39	New classification IFRS 9
Cash	FVTPL	FVTPL
Accounts receivable	Amortized cost	Amortized cost
Accounts payable	Amortized cost	Amortized cost
Factoring facility	Amortized cost	Amortized cost
Advances payable	Amortized cost	Amortized cost
Term loans	Amortized cost	Amortized cost
Convertible notes	Amortized cost	Amortized cost
Due to related parties	Amortized cost	Amortized cost

ATI AIRTEST TECHNOLOGIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2018

(Expressed in Canadian dollars)

2. Significant accounting policies (continued)

Financial Instruments (continued)

The adoption of IFRS 9 resulted in no impact to the opening accumulated deficit nor to the opening balance of accumulated other comprehensive income on January 1, 2018.

(ii) Measurement

Financial assets and liabilities at amortized cost

Financial assets and liabilities at amortized cost are initially recognized at fair value plus or minus transaction costs, respectively, and subsequently carried at amortized cost less any impairment.

Financial assets and liabilities at FVTPL

Financial assets and liabilities carried at FVTPL are initially recorded at fair value and transaction costs are expensed in the consolidated statements of comprehensive loss. Realized and unrealized gains and losses arising from changes in the fair value of the financial assets and liabilities held at FVTPL are included in the statements of loss and comprehensive loss in the period in which they arise.

Debt investments at FVOCI

These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in other comprehensive income ("OCI"). On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.

Equity investments at FVOCI

These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

(iii) Impairment of financial assets at amortized cost

The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost. At each reporting date, the Company measures the loss allowance for the financial asset at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition. If at the reporting date, the financial asset has not increased significantly since initial recognition, the Company measures the loss allowance for the financial asset at an amount equal to the twelve month expected credit losses. The Company shall recognize in the statements of comprehensive loss, as an impairment gain or loss, the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognized.

(iv) Derecognition

Financial assets

The Company derecognizes financial assets only when the contractual rights to cash flows from the financial assets expire, or when it transfers the financial assets and substantially all of the associated risks and rewards of ownership to another entity.

Financial liabilities

The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expire. The Company also derecognizes a financial liability when the terms of the liability are modified such that the terms and / or cash flows of the modified instrument are substantially different, in which case a new financial liability based on the modified terms is recognized at fair value.

Gains and losses on derecognition are generally recognized in profit or loss.

ATI AIRTEST TECHNOLOGIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2018

(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, 2018

(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

New standard IFRS 16 "Leases"

IFRS 16 eliminates the classification of operating leases and requires lessees to recognize a right-of-use and lease liability in the statement of financial position for all leases with exemptions permitted for short-term leases and leases of low value assets. In addition, IFRS 16 changes the definition of a lease; sets requirements on how to account for the asset and liability, including complexities such as non-lease elements, variable lease payments and option periods, changes the accounting for sale and leaseback arrangements, largely retains IAS 17's approach to lessor accounting and introduces new disclosure requirements. IFRS 16 is effective for annual reporting periods beginning on or after January 1, 2019 with early adoption permitted in certain circumstances. As at January 1, 2019, the Company will recognize a right-of-use asset and lease liability approximately \$191,000 in the consolidated statement of financial position for its current building lease.

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, 2018		December 31, 2017	
Trade receivables	\$	154,453	\$	21,335
Trade receivables factored (Note 8)		289,084		425,367
Allowance for doubtful amounts		(124,333)		(124,333)
	\$	319,204	\$	322,369

ATI AIRTEST TECHNOLOGIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2018

(Expressed in Canadian dollars)

6. Inventory

	December 31, 2018		December 31, 2017	
Finished goods	\$	71,429	\$	43,401
Work in progress		22,449		26,678
Raw materials		60,595		76,784
	\$	154,473	\$	146,863

For the year ended December 31, 2018, inventory recognized as an expense in cost of sales amounted to \$1,557,792 (2017 - \$2,054,563).

7. Accounts payable and accrued liabilities

	December 31, 2018		December 31, 2017	
Trade payables	\$	1,379,159	\$	1,259,388
Due to government agencies		162,795		152,060
Payroll accrual and vacation payable		2,856		2,380
Accrued obligations		79,418		68,870
	\$	1,624,228	\$	1,482,698

8. 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, 2018		December 31, 2017	
Funds advanced:				
Factored accounts receivable	\$	253,124	\$	320,037
Purchase orders		97,525		96,344
	\$	350,649	\$	416,381

9. Advances payable

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

ATI AIRTEST TECHNOLOGIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2018

(Expressed in Canadian dollars)

10. Term loans

The Company's term loans are comprised as follows:

	December 31, 2018	December 31, 2017
(1) \$	12,415	\$ 12,415
(2)	-	5,895
(3)	66,540	58,520
(4)	42,451	-
(5)	7,012	-
	\$ 128,418	\$ 76,830

(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.

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.

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.

On August 30, 2017, in addition to the amounts above, under the same agreement, the Company received an additional \$25,000 that was to be repaid with interest totaling \$10,040 at the rate of \$450.00 per business day until January 19, 2018.

As at December 31, 2018, the amount owing under this loan agreement was \$nil (2017:\$5,895). During the year ended December 31, 2018, the Company incurred interest charges of \$255 (2017: \$23,161) 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.

On May 19, 2017, the Company received an additional \$30,000 from the lender that was to be repaid with interest totaling \$12,000 at the rate of \$356.60 per business day until April 30, 2018.

On December 8, 2017, the Company received an additional \$30,000 from the lender that was to be repaid with interest totaling \$12,000 at the rate of \$356.60 per business day until October 15, 2018.

On May 22, 2018, the Company received an additional \$30,000 from the lender that was to be repaid with interest totaling \$22,125 at the rate of \$356.60 per business day until May 22, 2019.

On July 30, 2018, the Company received an additional \$20,000 from the lender that was to be repaid with interest totaling \$8,000 at the rate of \$356.60 per business day until July 30, 2019.

On November 21, 2018, the Company received an additional \$20,000 from the lender that was to be repaid with interest totaling \$8,000 at the rate of \$372.92 per business day until November 21, 2019.

ATI AIRTEST TECHNOLOGIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2018

(Expressed in Canadian dollars)

10. Term loans (continued)

The principal owing on this loan was \$66,540 (2017: \$58,520). During the year ended December 31, 2018, the Company incurred interest charges in the amount of \$27,974 (2017: \$25,801) in connection with these loans.

- (4) On June 29, 2018, the Company received proceeds of \$60,000 that was to be repaid with interest totaling \$24,000 at the rate \$475.00 per business day until March 14, 2019.

On September 28, 2018, the Company received an additional \$19,756 from the lender that was to be repaid with interest totaling \$8,000 at the rate of \$475.00 per business day until May 28, 2019.

The principal owing on this loan was \$42,451 (2017: \$nil). During the year ended December 31, 2018, the Company incurred interest charges in the amount of \$23,615 (2017: \$nil) in connection with these loans.

- (5) On November 16, 2018, the Company received proceeds of \$10,000 that was to be repaid with interest totaling \$4,500 at the rate \$241.67 per business day until February 13, 2019.

The principal owing on this loan was \$7,012 (2017: \$nil). During the year ended December 31, 2018, the Company incurred interest charges in the amount of \$2,570 (2017: \$nil) in connection with these loans.

11. 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, 2018, the Company recognized \$nil (2017 - \$8,059) of accretion expense on these loans.

The convertible promissory notes are summarized as follows:

Balance, December 31, 2016	\$	241,941
Accretion expense		8,059
Balance, December 31, 2018	\$	250,000

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:

Balance, December 31, 2016	\$	10,705
Derecognition		(10,705)
Balance, December 31, 2017 and 2018	\$	-

ATI AIRTEST TECHNOLOGIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018
(Expressed in Canadian dollars)

12. 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 \$486,081 (2016: \$239,482) 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, 2017, the Company was advanced \$300,000 from the same company controlled by a director of the Company. This advance is unsecured, non-interest bearing and has no fixed payment terms. As at December 31, 2017, total loan owing to the same company is \$1,136,081.

During the year ended December 31, 2018, the Company signed an agreement with Omni Marketing Global ("OMG"), a company controlled by a director. Under this agreement, OMG will be eliminating loans and interest owed by ATI totaling \$1,013,299, which was included under convertible debt loan and related party payable as at December 31, 2017. In addition, OMG has advanced \$1,000,000 to the Company during the year ended December 31, 2018. The Company will pay OMG a 5% royalty on sales monthly commencing January 1, 2018. As at December 31, 2018, the net owing to OMG is \$1,985,438.

At December 31, 2018, \$224,786 (2017 - \$116,346) 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, 2018, \$230,962 (2017 - \$193,175) is included in non-current loans payable owed to the CFO and President of the Company. See Note 13 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. As at December 31, 2018, total loan owing to the director is \$163,584 (2017 - \$158,334). The principal amount of \$125,000 is included in convertible debt (Note 11) and interest payable of \$38,584 is included in accounts payable (Note 7).

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, 2018		December 31, 2017	
Salaries	\$	312,000	\$	312,000

ATI AIRTEST TECHNOLOGIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018
(Expressed in Canadian dollars)

13. 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 (2017 -\$246,791). The Company recognized accretion expense during the year ended December 31, 2018 of \$221,143 (2017 - \$209,371). At December 31, 2017, the Company revised the expected maturity date to March 1, 2020 resulting in the liability being reduced by \$246,791.

14. Share capital

Authorized:

Unlimited common shares without par value.

Private placements

There were no shares issued during the year ended December 31, 2018 and 2017.

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
December 31, 2016	4,165,000	\$ 0.10
Expired	(1,000,000)	\$ 0.10
December 31, 2017 and 2018	3,165,000	\$ 0.10

The expiry date of the 3,165,000 options is November 19, 2020.

ATI AIRTEST TECHNOLOGIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2018

(Expressed in Canadian dollars)

14. 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, 2016	5,164,664	\$ 0.15
Expired	(5,164,664)	\$ 0.15
Outstanding at December 31, 2017 and 2018	-	\$ -

There were no warrants outstanding at December 31, 2018.

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, 2016	\$	15,391
Derecognition		(15,391)
Balance, December 31, 2017 and 2018	\$	-

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.

15. Segmented information

During the year ended December 31, 2018, \$1,276,987 (2017 - \$2,953,386) of the Company's revenue was earned from customers domiciled in the United States.

For the year ended December 31, 2018, sales to two customers represented approximately 28% and 7% (2017 - 28% and 6%) of the Company's revenue.

ATI AIRTEST TECHNOLOGIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2018

(Expressed in Canadian dollars)

16. Supplementary information

Presentation of the Company's operating expenses by nature versus function for the years ended December 31, 2018 and 2017 is as follows:

	2018	2017
OPERATING EXPENSES		
General and administrative:		
Amortization	\$ 592	\$ 765
Automotive	18,230	18,652
Bad debt	-	114,065
Freight	26,336	28,561
Office and general	47,207	52,684
Professional and management fees (Note 21)	36,758	124,415
Regulatory fees	16,354	14,355
Rent and property tax	63,551	61,266
Salaries and benefits	423,863	358,734
Total general and administrative	\$ 632,891	\$ 773,497
Business development and marketing:		
Advertising	\$ 4,997	\$ 2,353
Auto	22,892	23,002
Business promotion	12,593	5,839
Meals and entertainment	7,188	3,149
Salaries and benefits	589,954	595,022
Sales and consulting	60,000	60,000
Telephone	8,075	8,002
Trade shows	44,331	23,355
Travel	12,382	24,626
Total business development and marketing	\$ 762,412	\$ 745,348

ATI AIRTEST TECHNOLOGIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018
(Expressed in Canadian dollars)

17. 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 \$5,462,789 (2017: \$4,494,212) denominated in Canadian dollars. A 10% change in the US dollar versus the Canadian dollar would change the Company's comprehensive loss by approximately \$546,000 (2017: \$449,000).

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. As at December 31, 2018, the risk is considered minimal.

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 69% of trade receivables. Management performs a periodic assessment of the credit worthiness of customers to reduce exposure to credit risk.

Fair value

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 – Inputs that are not based on observable market data.

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 13.

ATI AIRTEST TECHNOLOGIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2018

(Expressed in Canadian dollars)

18. 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 2019 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 8.

19. 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:

	2018		2017	
Net income (loss)	\$	(1,273,920)	\$	(398,781)
Statutory tax rate		27%		26%
Expected income tax expense (recovery)		(344,000)		(104,000)
Tax effect of:				
Permanent differences		166,100		(79,000)
Change in tax rate		(75,200)		-
Change in unrecognized deferred tax assets		253,100		183,000
Income tax recovery	\$	-	\$	-

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

	2018		2017	
Non-capital loss carry-forwards	\$	2,158,000	\$	1,907,000
Equipment		49,600		48,000
Unrecognized deferred tax assets		(2,208,100)		(1,955,000)
	\$	-	\$	-

As at December 31, 2018, the Company has approximately \$7,994,000 (2017 - \$7,336,000) of non-capital losses in Canada that may be used to offset future taxable income, expiring from 2026 to 2038.

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

ATI AIRTEST TECHNOLOGIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2018

(Expressed in Canadian dollars)

20. Subsequent Event

In March 2019, the Company closed a private placement of \$300,000 by issuing 15,000,000 units. Each unit comprised of one common share in the capital of the Company and one non-transferable share purchase warrant. Each Warrant will entitle the holder to purchase one additional common share in the capital of the Company for a period of one year from the closing date at an exercise price of \$0.05.

21. Contingency

During the year ended December 31, 2016, the Company was subject to claim of \$100,000 in respect of an unpaid promissory note and no provision was recorded regarding this claim. During the year ended December 31, 2017, the Company settled the claim for \$57,500 and the settlement was included in professional fees under General and administrative expenses (Note 16).