

**ATI AIRTEST TECHNOLOGIES INC.**

**CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2018**

**(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	September 30, 2018	December 31, 2017
<b>ASSETS</b>			
<b>Current</b>			
Cash in bank		\$ 11,179	\$ 2,317
Accounts receivable	4	349,609	322,369
Inventory	5	166,134	146,863
Prepaid expenses		24,168	6,314
		551,090	477,863
<b>Non-current</b>			
Equipment		2,875	3,319
		\$ 553,965	\$ 481,182
<b>LIABILITIES</b>			
<b>Current</b>			
Accounts payable and accrued liabilities	6	1,420,781	\$ 1,482,698
Factoring facility	7	337,056	416,381
Advances payable	7	207,756	207,756
Term loans	7	134,779	76,830
Convertible debt notes	7	250,000	250,000
Due to related parties	10	1,889,155	1,252,427
		4,239,527	3,686,092
<b>Non-current</b>			
Loans	9	1,130,489	1,130,489
		5,370,016	4,816,581
<b>SHAREHOLDERS' DEFICIENCY</b>			
Share capital	8	9,675,786	9,675,786
Reserves	8	133,333	133,333
Deficit		(14,625,170)	(14,144,518)
		(4,816,051)	(4,335,399)
		\$ 553,965	\$ 481,182

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 SEPTEMBER 30, 2018 AND 2017**

**(Expressed in Canadian dollars)**

(unaudited)

	3 <sup>rd</sup> Quarter 2018	3 <sup>rd</sup> Quarter 2017	YTD 2018	YTD 2017
<b>PRODUCT SALES</b>	\$ 719,917	\$ 804,773	\$ 2,029,503	\$ 2,856,197
<b>COST OF GOODS SOLD</b>	482,612	522,438	1,284,915	1,789,292
<b>GROSS PROFIT</b>	237,305	282,335	744,588	1,066,905
<b>EXPENSES</b>				
General and administrative	132,886	148,337	495,438	469,833
Business development and marketing	177,198	155,201	578,089	535,727
Factoring fees and finance charges	55,325	70,026	149,734	231,487
Research and development	888	-	1,979	11,578
	(366,297)	(373,564)	(1,225,240)	(1,248,625)
<b>NET LOSS &amp; COMPREHENSIVE (LOSS) FOR THE PERIOD</b>	(128,992)	(91,229)	(480,652)	(181,720)
Loss per shares – basic and diluted	\$ (0.00)	\$ (0.00)	\$ (0.01)	\$ (0.00)
Weighted average number of common shares outstanding – basic & diluted	34,705,581	34,705,581	34,705,581	34,705,581

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

ATI AIRTEST TECHNOLOGIES INC.

CONSOLIDATED INTERIM STATEMENT OF CHANGES IN SHAREHOLDERS' DEFICIENCY

NINE MONTHS ENDED SEPTEMBER 30, 2018 AND 2017

(Expressed in Canadian dollars)

(unaudited)

	Share capital			Share based Payment \$	Reserves		Total shareholders ' deficiency \$
	Number of shares	Amount \$	Obligation to issue shares \$		Foreign currency translation \$	Deficit \$	
<b>Balance, December 31, 2016</b>	34,705,581	9,675,786	-	1,315,182	(961,545)	(13,745,737)	(3,716,314)
Comprehensive loss for the period	-	-	-	-	-	(181,720)	(181,720)
<b>Balance, September 30, 2017</b>	34,705,581	9,675,786	-	1,315,182	(961,545)	(13,927,457)	(3,898,034)
<b>Balance, December 31, 2017</b>	34,705,581	9,675,786	-	1,315,182	(1,181,849)	(14,144,518)	(4,335,399)
Comprehensive loss for the period	-	-	-	-	-	(480,652)	(480,652)
<b>Balance, September 30, 2018</b>	34,705,581	9,675,786	-	1,315,182	(1,181,849)	(14,625,170)	(4,816,051)

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 SEPTEMBER 30, 2018 AND 2017**

**(Expressed in Canadian dollars)**

(unaudited)

	3 <sup>rd</sup> Quarter 2018	3 <sup>rd</sup> Quarter 2017	YTD 2018	YTD 2017
<b>CASH PROVIDED BY (USED IN):</b>				
<b>Operating Activities:</b>				
Net loss for the period	\$ (128,992)	\$ (91,229)	\$ (480,652)	\$ (181,720)
Items not involving cash:				
Amortization	148	191	444	574
Changes in non-cash working capital items:				
Accounts receivable	(36,946)	(91,731)	(27,240)	(14,717)
Inventory	510	(41,454)	(19,271)	10,900
Interest payable	-	16,250	-	48,750
Prepaid expenses	(4)	-	(17,854)	-
Interest Payable on Factoring	7,090	21,776	7,090	21,777
Accounts payable and accrued liabilities	58,957	90,311	(61,917)	59,841
Net cash used in operating activities	(99,237)	(95,886)	(599,400)	(54,595)
<b>Financing Activities:</b>				
Loan proceeds (repayment)	1,722	77,828	(28,466)	44,169
Advances from related parties	100,916	(225)	636,728	18,907
Net cash from financing activities	102,638	77,603	608,262	63,076
Increase (decrease) in cash	3,401	(18,283)	8,862	8,481
Cash (deficiency), beginning of period	7,778	18,767	2,317	(7,997)
Cash (deficiency), end of period	\$ 11,179	\$ 484	\$ 11,179	\$ 484

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  
SEPTEMBER 30, 2018

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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 September 30, 2018 of \$3,688,437 and has accumulated a deficit of \$14,625,170 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  
SEPTEMBER 30, 2018

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(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  
SEPTEMBER 30, 2018

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(Expressed in Canadian dollars, except where noted)

### 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

	September 30, 2018	December 31, 2017
Trade receivables	\$ 158,634	\$ 21,335
Trade receivables factored (Note 8)	315,308	425,367
Allowance for doubtful amounts	(124,333)	(124,333)
	\$ 349,609	\$ 322,369

## ATI AIRTEST TECHNOLOGIES INC.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2018

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(Expressed in Canadian dollars, except where noted)

### 5. Inventory

Inventory at year-end consists of the following:

	September 30, 2018	December 31, 2017
Finished goods	\$ 70,865	\$ 43,401
Work in progress	26,250	26,678
Raw materials and component parts	69,019	76,784
	\$ 166,134	\$ 146,863

For the period ended September 30, 2018, inventory recognized as an expense in cost of sales amounted to \$441,971 (2017 - \$479,471). As at September 30, 2018, the Company anticipates that the net inventory will be realized within one year.

### 6. Accounts payable and accrued liabilities

	September 30, 2018	December 31, 2017
Trade payables	1,189,845	1,259,388
Due to government agencies	129,806	152,060
Payroll accrual and vacation payable	4,760	2,380
Accrued obligations	96,370	68,870
	\$ 1,420,781	\$ 1,482,698

## ATI AIRTEST TECHNOLOGIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2018

(Expressed in Canadian dollars, except where noted)

### 7. Loans, advances and convertible debt

#### a) Loans and advances

	September 30, 2018	December 31, 2017
<b>i) Factoring loan</b> , secured against receivables with full recourse for uncollectable accounts	\$ 337,056	\$ 416,381
<b>ii) Loans and advances</b> , unsecured, due on demand:		
Term loans	134,779	76,830
Convertible notes	250,000	250,000
Advances payable	207,756	207,756
	\$ 929,591	\$ 950,967

#### 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.

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 March 31, 2015 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.

# ATI AIRTEST TECHNOLOGIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2018

(Expressed in Canadian dollars, except where noted)

## 8. 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

### (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 September 30, 2018, 3,165,000 options with an exercise price of \$0.10 and expiring on November 19, 2020 were outstanding and exercisable.

### (d) Warrants

The following table summarizes information about warrants for the period:

	September 30, 2018		December 31, 2017	
	Warrants	Weighted average exercise price	Warrants	Weighted average exercise price
Outstanding, beginning of period	-	\$ -	5,164,664	\$ 0.15
Issued	-	-	-	-
Expired	-	-	(5,164,664)	0.15
Outstanding, end of year	-	\$ -	-	\$ -

There were no warrants outstanding at September 30, 2018.

## 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.



**9. Non-current loans**

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 \$246,791 (2016 -\$Nil). The Company recognized accretion expense during the year ended December 31, 2017 of \$209,371 (2016 - \$209,892). At December 31, 2017, the Company revised the expected maturity date to March 1, 2020 resulting in the liability being reduced by \$246,791 (2015 - \$209,892 with the reduction being recorded as an offset to accretion expense).

**10. 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, 2016, the Company was advanced \$150,000 from the same company controlled by a director of the Company. This advance is unsecured, non-interest bearing and has no fixed payment terms.

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.

During the period ended September 30, 2018, the Company was advanced \$550,000 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 September 30, 2018, total loan owing to the same company is \$1,631,081 (December 31, 2017 \$1,136,801).

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 totalling \$1,013,299, which was included under convertible debt loan and related party payable as at March 31, 2017. In addition, OMG will advance \$1,000,000 to the Company (\$1,000,000 was advanced by September 30, 2018). The Company will pay OMG a 5% royalty on sales monthly commencing January 1, 2018. In the event of default, the Company will pay \$2,013,299 plus 25% per year less all royalty payments that have been paid to date of default. The transaction was approved June 13, 2018 by the TSX-V Exchange.

# ATI AIRTEST TECHNOLOGIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2018

(Expressed in Canadian dollars, except where noted)

At September 30, 2018, \$258,074 (December 31, 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 September 30, 2018, \$193,175 (December 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 September 30, 2018, total loan owing to the director is \$158,334. (December 31, 2017 \$158,334). The amount is included in convertible debt.

## 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	
	Sept 30, 2018	Sept 30, 2017
Salaries	\$ 78,000	\$ 78,000
Total	\$ 78,000	\$ 78,000

## 11. 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:

	Sept 30, 2018	Sept 30, 2017
U.S.A.	\$ 252,601	\$ 318,369
Canada	444,385	472,843
Other	22,931	13,561
	\$ 719,917	\$ 804,773

## ATI AIRTEST TECHNOLOGIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2018

(Expressed in Canadian dollars, except where noted)

### 12. Supplementary information

Presentation of the Company's operating expenses by nature versus function for the quarters ended September 30, 2018 and 2017 is as follows:

	3 <sup>rd</sup> Quarter 2018	3 <sup>rd</sup> Quarter 2017	YTD 2018	YTD 2017
<b>OPERATING EXPENSES</b>				
<b>General and administrative:</b>				
Amortization	\$ 148	\$ 191	\$ 296	\$ 574
Automotive	3,031	15,047	10,692	17,582
Foreign exchange (gain) loss - realized	12,355	(18,825)	38,266	(31,148)
Freight	8,077	5,249	14,806	23,246
Office and general	6,328	9,373	22,886	35,571
Professional and management fees	3,300	24,752	12,880	71,518
Regulatory fees	9,796	1,954	12,085	12,948
Rent and property tax	15,396	15,193	30,681	46,048
Salaries and benefits	108,354	95,403	219,960	293,493
Total general and administrative	166,785	148,337	362,552	469,833
<b>Business development and marketing:</b>				
Advertising	598	790	4,399	1,588
Auto	4,110	(3,435)	17,180	4,867
Business promotion	678	298	11,292	3,870
Meals and entertainment	2,171	-	6,857	1,786
Office and general	2,201	(428)	6,087	3,335
Salaries and benefits	166,638	157,551	491,590	492,162
Trade shows	52	426	25,784	22,801
Travel	750	-	14,900	5,318
Total business development and marketing	\$ 177,198	\$ 155,201	\$ 578,089	\$ 535,727

### 13. 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 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, 2017, 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 63% (December 31, 2017 – 53%) 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.

**14. 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 2018 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.

**15. Subsequent Events**

There were no subsequent events.