Condensed Interim Financial Statements of

E. S. I. ENVIRONMENTAL SENSORS INC.

Six months ended September 30, 2017 and 2016

(Unaudited)

(Expressed in Canadian Dollars)

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Professional Accountants of Canada for a review of interim financial statements by an entity's auditor.

E.S.I. ENVIRONMENTAL SENSORS INC.

Condensed Interim Statements of Financial Position
(Unaudited – Prepared by Management)
(Expressed in Canadian Dollars)
As at

	September 30, 2017	March 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	$ 410	$ 3,250
Trade receivables	10,210	3,702
	$ 10,620	$ 6,952
Liabilities and Shareholders' Equity (Deficiency)		
Current liabilities:		
Trade and other payables (note 5)	$ 580,749	$ 741,202
Payable to related parties (note 8 and 16)	761,856	529,486
Loans payable (note 6 and 16)	181,517	154,911
	1,524,122	1,425,599
Shareholders' equity (deficiency):		
Share capital (note 9)	23,878,935	23,878,935
Other paid in capital (note 11)	3,503,393	3,503,393
Deficit	(28,895,830)	(28,800,975)
	(1,513,502)	(1,418,647)
	$ 10,620	$ 6,952

Going concern (note 1)
Contingent liabilities (note 17)

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

On behalf of the Board:

"Johan Grandin" Director

"Matteo Beffa" Director

E. S. I. ENVIRONMENTAL SENSORS INC.

Condensed Interim Statements of Loss and Comprehensive Loss
(Unaudited – Prepared by Management)
(Expressed in Canadian Dollars)

	Three months ended September 30, 2017	Three months ended September 30, 2016	Six months ended September 30, 2017	Six months ended September 30, 2016
Revenue	$ -	$ -	$ -	$ 10,875
Cost of product sales	-	-	-	(1,318)
	-	-	-	9,557
Operating expenses:				
General and administrative	68,157	47,387	109,366	57,722
Management fees (note 8 and 16)	81,000	81,000	162,000	132,000
	(149,157)	(128,387)	(271,366)	(189,722)
Operating loss	(149,157)	(128,387)	(271,366)	(180,165)
Other (expenses) income:				
Bad debt recovery (expense)	-	(562)	-	2,447
Interest and finance recovery (expense)	1,353	(13,812)	691	(12,512)
Write-off of current liabilities	175,820	332,037	175,820	332,037
Extinguishment of notes payable and interest	-	761,274	-	761,274
	177,173	1,078,937	176,511	1,083,246
Income (loss) and comprehensive income (loss) for the period	$ 28,016	$ 950,550	$ (94,855)	$ 903,081
Basic and diluted earnings (loss) per share	$ 0.00	$ 0.05	$ (0.00)	$ 0.05
Weighted average number of common shares outstanding	20,346,755	20,346,755	20,346,755	19,904,993

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

E. S. I. ENVIRONMENTAL SENSORS INC.

Condensed Interim Statements of Changes in Shareholders' Equity (Deficiency)
(Unaudited – Prepared by Management)
(Expressed in Canadian Dollars)

	Number of common shares	Share capital	Shares subscribed	Other paid in capital	Deficit	Total deficiency
Balance at March 31, 2016	**19,146,755**	**$23,342,685**	**$ 600,000**	**$ 3,503,393**	**$(29,039,354)**	**$ (1,593,276)**
Net income	-	-	-	-	903,081	903,081
Private placement	1,200,000	600,000	(600,000)	-	-	-
Share issue costs	-	(63,750)	-	-	-	(63,750)
Balance at September 30, 2016	**20,346,755**	**$23,878,935**	**$ -**	**$ 3,503,393**	**$(28,136,273)**	**$ (753,945)**
Balance at March 31, 2017	**20,346,755**	**$23,878,935**	**$ -**	**$ 3,503,393**	**$(28,800,975)**	**$ (1,418,647)**
Net loss	-	-	-	-	(94,855)	(94,855)
Balance at September 30, 2017	**20,346,755**	**$23,878,935**	**$ -**	**$ 3,503,393**	**$(28,895,830)**	**$ (1,513,502)**

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

E.S.I. ENVIRONMENTAL SENSORS INC.

Condensed Interim Statements of Cash Flows
(Unaudited – Prepared by Management)
(Expressed in Canadian Dollars)
For the six months ended September 30,

	2017	2016
Cash provided by (used in):		
Operations:		
Income (loss) for the period	$ (94,855)	$ 903,081
Items not involving cash:		
Bad debt recovery	-	(2,447)
Write-off of current liabilities	(175,820)	(332,037)
Extinguishment of notes payable and interest	-	(761,274)
Management fee to related party	162,000	132,000
Changes in non-cash operating working capital:		
Trade receivables	(6,508)	6,732
Prepaid expenses	-	7,022
Trade and other payables	19,973	(63,952)
Due to related parties	70,370	34,500
Net cash used in operating activities	(24,840)	(76,375)
Financing:		
Loan payable	22,000	67,000
Share issuance costs paid in cash	-	(3,750)
Net cash provided by financing activities	22,000	63,250
Change in cash and cash equivalents	(2,840)	(13,125)
Cash and cash equivalents, beginning of period	3,250	13,395
Cash and cash equivalents, end of period	$ 410	$ 270

Supplemental cash flow information (note 15)

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

E.S.I. Environmental Sensors Inc. (the "Company" or "ESI") was incorporated under the laws of British Columbia. The Company is engaged in the development, manufacture, sale and after-market servicing of water measurement instrumentation and related technology. The Company's principal location is 510 – 580 Hornby Street, Vancouver, BC, Canada.

1. Going concern:

These condensed interim financial statements have been prepared using the going concern assumption, which assumes that the Company will continue in operation for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of operations. The Company has experienced significant losses and negative cash flow from operations over a number of years, has an accumulated deficit of $28,895,830 (March 31, 2017 - $28,800,975), a working capital deficiency of $1,513,502 (March 31, 2017 - $1,418,647) and a shareholder's deficiency of $1,513,502 (March 31, 2017 - $1,418,647). These conditions raise substantial doubt about the Company's ability to continue as a going concern.

The Company's ability to meet its obligations in the ordinary course of business is dependent upon its ability to establish profitable operations and positive cash flows from operating activities or to obtain additional funding through public or private equity financing, debt, or collaborative or other arrangements. There can be no assurances that financing will be available on terms acceptable to the Company, or at all. These condensed interim financial statements do not reflect adjustments that would be necessary if the going concern assumption were not appropriate. If the Company is unable to continue as a going concern, assets and liabilities would require re-measurement on a liquidation basis, which would differ materially from the going concern basis.

2. Basis of preparation and statement of compliance:

(a) Statement of compliance:

These condensed interim financial statements, including comparatives have been prepared using accounting policies consistent with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and Interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC") and in accordance with International Accounting Standards ("IAS") 34, Interim Financial Reporting. The policies applied in these condensed interim financial statements are based on IFRS issued and effective as of September 30, 2017

The condensed interim financial statements were approved and authorized for issue by the Board of Directors on November 27, 2017.

(b) Basis of presentation:

These condensed interim financial statements have been prepared on the historical cost basis except for certain financial instruments that have been measured at fair value. In addition, these condensed interim financial statements have been prepared using the accrual basis of accounting except for cash flow information. These condensed interim financial statements are presented in Canadian dollars, which is the Company's functional currency. During the period ended September 30, 2017, the Company consolidated its common shares on the basis of 10:1. These condensed interim financial statements reflect this consolidation retroactively.

2. Basis of preparation and statement of compliance (continued):

(c) Use of judgments:

The preparation of condensed interim financial statements in conformity with IFRS requires management to make judgments, and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenue and expenses. Actual results may differ from these judgments. Information about critical judgments in applying accounting policies with the most significant effect on the amounts recognized in the condensed interim financial statements relates to the application of the going concern assumption (note 1) and the determination of the Company's functional currency.

(d) Use of estimates:

The preparation of condensed interim financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the condensed interim financial statements and the reported amounts of revenue and expenses during the periods, as well as disclosure of contingent assets and liabilities at the date of the condensed interim financial statements. Significant areas requiring the use of management estimates relate to valuation of trade receivables, inventories, equipment and leasehold improvements, share-based compensation, warrants, and the recognition of contingent liabilities (note 17). Actual results could differ from those estimates used in the financial statements.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

3. Significant accounting policies:

The preparation of the financial data is based on accounting principles and practices consistent with those used in the preparation of the audited financial statements as at March 31, 2017. These condensed interim financial statements should be read in conjunction with the Company's audited financial statements for the year ended March 31, 2017.

New accounting standards and interpretation:

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

New accounting policies not yet adopted

Effective for annual periods beginning on or after January 1, 2018.

IFRS 9, Financial Instruments – Classification and Measurement. IFRS 9 is a new standard on financial instruments that will replace IAS 39, Financial Instruments: Recognition and Measurement.

IFRS 9 addresses classification and measurement of financial assets and financial liabilities as well as de-recognition of financial instruments. IFRS 9 has two measurement categories for financial assets: amortized cost and fair value. All equity instruments are measured at fair value. A debt instrument is at amortized cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest. Otherwise it is at fair value through profit or loss.

(Expressed in Canadian Dollars)

3. Significant accounting policies (continued):

Effective for annual periods beginning on or after January 1, 2019:

On January 13, 2016, the IASB issued IFRS 16, Leases ("IFRS 16"), according to which, all leases will be on the statement of financial position, except those that meet the limited exception criteria. The standard is effective for annual periods beginning on or after January 1, 2019.

4. Note receivable:

On May 22, 2015, the Company loaned $200,000 to Dycor Technologies Ltd. (“Dycor”). Dycor has provided the Company with a promissory note bearing 12% interest per annum. The loan amount of $200,000, and all interest thereon, was due and payable 90 days from the date of the advance of the funds. Interest is calculated monthly, on the last day of each month. As at September 30, 2017 the full balance of the note remained outstanding. As the collectability of the note is uncertain, an allowance for the principal balance of $200,000 and accrued interest was recorded as at September 30, 2017.

5. Trade and other payables:

	September 30, 2017	March 31, 2017
Trade payables	$ 383,322	$ 521,775
Accrued liabilities	197,427	219,427
	$ 580,749	$ 741,202

6. Loans Payable:

As of September 30, 2017, the total loans payable to an individual who controls a company which is the Company’s majority shareholder amounted to $80,000 (March 31, 2017 - $80,000). The loans are unsecured, bear interest of 6% per annum, and have no specific terms of repayment. As at September 30, 2017, the Company had accrued interest of $8,583.

As of September 30, 2017, the total loans payable to a company which is the Company’s majority shareholder amounted to $65,000 (March 31, 2017 - $65,000). The loans bear interest of 6% per annum unsecured and have no specific terms of repayment. As at September 30, 2017, the Company had accrued interest of $5,689.

As of September 30, 2017, the total loans payable to a company related to company’s Chief Financial Officer is $8,500 (March 31, 2017 - $Nil). The loans bear interest of 6% per annum unsecured and have no specific terms of repayment. As at September 30, 2017, the Company had accrued interest of $96.

As of September 30, 2017, the total loans payable to a company related to company’s Chief Executive Officer is $8,500 (March 31, 2017 - $Nil). The loans bear interest of 6% per annum unsecured and have no specific terms of repayment. As at September 30, 2017, the Company had accrued interest of $96.

As of September 30, 2017, the total loans payable to a director of the Company is $5,000 (March 31, 2017 - $Nil). The loans bear interest of 6% per annum unsecured and have no specific terms of repayment. As at September 30, 2017, the Company had accrued interest of $53.

(Expressed in Canadian Dollars)

7. Subscriptions received:

Share subscriptions received in anticipation of future private placement transactions at March 31, 2016 were $600,000. During the year ended March 31, 2017, the Company issued 1,200,000 common shares in connection with the subscriptions received during fiscal 2016. In connection with the transaction, the Company paid $60,000 in cash finders' fees and $3,750 share issuance costs.

8. Management fees to related party:

During the period ended September 30, 2017, the Company recorded $72,000 (2016 - $72,000) in fees, according to the terms of the ongoing management agreement with Avis Financial Corporation ("Avis"), the majority shareholder of the Company. As at September 30, 2017, the amount owed to Avis was $360,000 (March 31, 2017 - $288,000). The Company also recorded $90,000 (September 30, 2016 – $60,000) in management fees to a company owned by the Company's Chief Executive Officer. As at September 30, 2017, the amount owed to this company was $248,500 (March 31, 2017 - $157,500).

9. Share capital:

During the period ended September 30, 2017, the Company consolidated its common shares on the basis of 10:1. These condensed interim financial statements reflect this consolidation retroactively.

(a) Authorized:

Authorized share capital comprises an unlimited number of common shares and an unlimited amount of preferred shares. No preferred shares have been issued.

(b) Issued and outstanding:

During the year ended March 31, 2017, the Company closed a private placement consisting of 1,200,000 common shares for gross proceeds of $600,000. In connection with the transaction, the Company paid $60,000 in cash finders' fees and $3,750 of share issuance costs.

(c) Options to purchase common shares of the Company may be granted by the Board of Directors. There are no stock options outstanding at September 30, 2017.

10. Warrants:

A summary of the status of the warrants outstanding and changes during the periods is presented below:

	Amount	Number of warrants	Weighted average exercise price	Weighted average remaining contractual life
Balance, March 31, 2016	$ 184,808	2,084,688	$ 1.70	1.17
Expired	(55,996)	(694,000)	2.00	-
Expired	(38,128)	(403,353)	1.50	-
Balance, March 31, 2017 and September 30, 2017	$ 90,684	987,335	$ 1.00	.20

Subsequent to September 30, 2017, 627,335 warrants expired unexercised.

For each private placement warrant issuance, that portion of the subscription proceeds representing the fair value of the warrants issued is allocated from share capital upon issuance of the warrants.

11. Other paid in capital:

Other paid in capital includes amounts recorded as share-based compensation and the fair value of warrants issued. The components of other paid in capital are as follows:

		Warrants		Contributed surplus		Total
Balance at March 31, 2016	$	184,808	$	3,318,585	$	3,503,393
Warrants expired unexercised		(98,111)		98,111		-
Balance at March 31, 2017 and September 30, 2017	$	86,697	$	3,416,696	$	3,503,393

12. Segmented information:

The Company's operations consist of one reportable operating segment: Moisture Monitoring Instrumentation. All of the assets related to the Company's operations are located in Canada. Revenue is attributable to geographic location based on the location of the customer, as follows:

	Six months ended September 30,			
		2017		2016
North America	$	-	$	10,875
	$	-	$	10,875

13. Financial instruments:

Risk disclosures:

a) Credit risk:

Credit risk is the risk of loss resulting from the failure of a customer or counterparty to meet its contractual obligations to the Company. The carrying value of these financial assets represents the Company's estimate of maximum credit exposure.

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of trade receivables. In prior years, the vast majority of the Company's customers are located in the United States, Canada and Australia. Allowance for doubtful accounts is reviewed by the Company on an annual basis, while past due trade receivables are reviewed monthly. The Company's historical bad debts have been nominal.

b) Currency risk:

The Company both purchases inventory from and sells its products into foreign markets, primarily the United States, which gives rise to exposure to market risks from changes in foreign currency values. Most significantly, the Company is exposed to potential currency fluctuations between US and Canadian dollars as the Company's sales and purchases are transacted in US dollars. Fluctuations in the exchange rate could impact profitability. At September 30, 2017, a 100 basis point change in foreign exchange rates would not have a significant impact on net loss.

13. Financial instruments (continued):

c) Liquidity risk:

Liquidity risk arises through excess of financial obligations over available financial assets due at any point in time. The Company's objective in managing liquidity risk is to raise sufficient funds through loans and issuance of common shares in order to meet financial obligations. As of September 30, 2017, the Company had a working capital deficiency of $1,513,502 (March 31, 2017 - $1,418,647).

d) Fair values:

The fair values of the Company's cash and cash equivalents, trade receivables, trade and other payables, loans payable, and payable to related party are estimated to approximate their carrying values due to the immediate or short-term to maturity of these financial instruments.

e) Interest rate risk:

The Company has outstanding fixed rate debt in the form of notes payable. At September 30, 2017, a 100 basis point change in interest rates would not have a significant impact on net loss.

14. Capital management:

The Company's objectives when managing capital are to ensure sufficient liquidity for operations and adequate funding for growth and capital expenditures while maintaining an efficient balance between debt and equity. The capital structure of the Company currently consists of shareholders' deficiency. The Company makes adjustments to its capital structure upon approval from its Board of Directors, in light of economic conditions and the Company's working capital requirements. There were no changes in the Company's approach to capital management during the period. The Company does not presently utilize any quantitative measures to monitor its capital.

15. Supplemental cash flow information:

During the period ended September 30, 2016 Company issued 1,200,000 common shares in connection with the subscription received during fiscal 2016. As a result, the Company reclassified $600,000 previously recorded in shares subscribed to share capital and reclassified $60,000 finders' fees previously included in prepaid expenses to share issuance costs.

There was no supplemental cash flow information for the period ended September 30, 2017.

(Expressed in Canadian Dollars)

16. Related party transactions:

Key management compensation:

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company. The compensation for key management is as follows:

	Three months ended September 30,		Six months ended September 30,	
	2017	2016	2017	2016
Management fees	$ 81,000	$ 81,000	$ 162,000	$ 132,000
General and administrative	22,500	22,500	45,000	30,000
	$ 103,500	$ 103,500	$ 207,000	$ 162,000

During the period ended September 30, 2017, the Company has recorded $72,000 (September 30, 2016 - $72,000) in management fees to a majority shareholder, according to the terms of the ongoing management agreement. As at September 30, 2017, the amount owed was $360,000 (March 31, 2017 - $288,000).

During the period ended September 30, 2017, the Company has recorded $90,000 (September 30, 2016 - $60,000) in management fees to a company owned by the Chief Executive Officer. As at September 30, 2017, the amount owed to the company was $248,500 (March 31, 2017 - $157,500).

During the period ended September 30, 2017, the Company has recorded $45,000 (2016 - $30,000) in general and administrative fees for accounting services provided by an accounting firm of which the Chief Financial Officer is a partner. As at September 30, 2017, the amount owed to the firm was $120,500 (March 31, 2017 - $76,750).

As at September 30, 2017, there was an additional $32,856 owed to related parties.

The Company has loans payable to related parties in aggregate of $167,000 (March 31, 2017 - $145,000).

During the period ended September 30, 2017 the Company accrued interest on the loans payable of $14,517 (March 31, 2017 - $9,911).

17. Contingent liabilities:

(a) Indemnification:

The Company is party to a variety of agreements in the ordinary course of business under which it may be obligated to indemnify a third party with respect to certain matters. The impact on the Company's future financial results is not subject to reasonable estimation because considerable uncertainty exists as to whether claims will be made and the final outcome of potential claims. To date, the Company has not incurred material costs related to these types of indemnifications.

17. Contingent liabilities (continued):

(b) Government assistance:

In 2006 and prior years, the Company received financial assistance from the Government of Canada's National Research Council under its Technology Partnership Canada Program ("TPC") administered by the Industrial Research Assistance Program ("IRAP") and now Industry Canada. Government assistance received totaled $227,119, including $Nil for the period ended September 30, 2017 and 2016 and was applied to reduce related development costs. The assistance received is repayable over a period not exceeding ten years from April 1, 2006 under a royalty arrangement based on the Company's gross revenue from all products. Repayments will be accrued and reported in the period(s) when sales of said products are recognized or when the liability is determined likely to be repayable. In July 2007, the terms of the agreement were amended whereas the repayment phase was extended an additional 43 months. The assistance will now be repayable up to October 1, 2019. As at September 30, 2017, the Company had made total repayments of $Nil (March 31, 2017 - $Nil).