

ATI AIRTEST TECHNOLOGIES INC.

CONSOLIDATED INTERIM FINANCIAL STATEMENTS

SEPTEMBER 30, 2021

(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, 2021	December 31, 2020
ASSETS			
Current			
Cash		\$ 185,362	\$ 76,017
Accounts receivable	5	191,220	164,425
Inventory	6	280,640	158,365
Prepaid expenses/inventory deposits		323,315	29,325
		980,537	428,132
Non-current			
Equipment		8,346	10,580
Right of use asset	17	176,320	176,320
		\$ 1,165,203	\$ 615,032
LIABILITIES			
Current			
Accounts payable and accrued liabilities	7, 12	\$ 1,962,230	\$ 1,620,903
Factoring facility	8	203,648	190,585
Advances payable	9	74,014	207,756
Term loans	10	55,548	65,404
Derivative liability	21	2,450,250	2,450,250
Convertible debt notes	11	250,000	250,000
Due to related parties	12	1,930,426	2,407,512
Lease liability	18	19,313	19,313
		6,945,429	7,211,723
Non-current			
Loans	12, 13	1,012,933	1,012,933
Lease liability	18	173,313	173,313
Total liabilities		8,131,675	8,397,969
SHAREHOLDERS' DEFICIENCY			
Share capital	14	11,377,822	10,104,365
Advance on offering	23	625,000	-
Reserves	14	1,633,320	1,633,320
Accumulated other comprehensive loss		(942,688)	(942,688)
Deficit		(19,659,926)	(18,577,934)
Total shareholders' deficiency		(6,966,472)	(7,782,937)
Total liabilities and shareholder's deficiency		\$ 1,165,203	\$ 615,032

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

APPROVED ON BEHALF OF THE BOARD

/s/ "George Graham"

/s/ "Ted Konyi"

ATI AIRTEST TECHNOLOGIES INC.

CONSOLIDATED INTERIM STATEMENTS OF COMPREHENSIVE LOSS

THREE MONTHS ENDED SEPTEMBER 30, 2021 AND 2020

(Expressed in Canadian dollars)

(unaudited)

	3rd Quarter 2021	3rd Quarter 2020	YTD 2021	YTD 2020
PRODUCT SALES	\$ 484,665	\$ 561,504	\$ 1,612,422	\$ 2,168,749
COST OF GOODS SOLD	285,080	339,079	985,020	1,291,506
GROSS PROFIT	199,585	222,425	627,402	877,243
EXPENSES				
General and administrative	249,897	245,487	763,250	566,682
Business development and marketing	214,931	180,033	630,890	579,736
Research and development	16,320	38	90,619	1,042
	(481,148)	(425,558)	(1,484,759)	(1,147,460)
Other items				
Interest and financing fees	24,915	33,727	83,936	109,940
Foreign exchange	34,329	(21,439)	15,100	30,459
Royalty expense and interest	26,124	67,792	125,597	213,325
	(85,368)	(80,080)	(224,633)	(353,724)
NET LOSS & COMPREHENSIVE (LOSS) FOR THE PERIOD	(366,930)	(283,213)	(1,081,991)	(623,941)
Loss per shares – basic and diluted	\$ (0.00)	\$ (0.01)	\$ (0.01)	\$ (0.01)
Weighted average number of common shares outstanding – basic & diluted	97,716,278	51,025,253	93,523,820	50,747,552

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

ATI AIRTEST TECHNOLOGIES INC.

CONSOLIDATED INTERIM STATEMENT OF CHANGES IN SHAREHOLDERS' DEFICIENCY

THREE MONTHS ENDED SEPTEMBER 30, 2021 AND 2020

(Expressed in Canadian dollars)

(unaudited)

	Share capital		Reserves		Deficit	Total shareholders' deficiency
	Number of shares	Amount \$	Contributed surplus \$	Foreign currency translation \$		
Balance, December 31, 2019	49,705,581	9,882,982	1,315,182	(806,793)	(15,699,411)	(5,308,040)
Shares issued for cash	25,500,000	503,283	-	-	-	503,283
Net loss for the period	-	-	-	-	(623,941)	(623,941)
Balance, September 30, 2020	75,205,581	10,386,266	1,315,182	(806,793)	(16,323,352)	(5,428,697)
Balance, December 31, 2020	85,705,581	10,104,365	1,633,320	(942,688)	(18,577,934)	(7,782,937)
Shares issued for cash	9,927,001	1,118,457	-	-	-	1,118,457
Advance on issuance	-	625,000	-	-	-	625,000
Exercise of warrants	3,100,000	155,000	-	-	-	155,000
Net loss for the period	-	-	-	-	(1,081,991)	(1,081,991)
Balance, September 30, 2021	98,732,582	12,002,822	1,633,320	(942,688)	(19,659,926)	(6,966,472)

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, 2021 AND 2020

(Expressed in Canadian dollars)

(unaudited)

	3rd Quarter 2021	3rd Quarter 2020	YTD 2021	YTD 2020
CASH PROVIDED BY (USED IN):				
Operating Activities:				
Net loss for the period	\$ (366,930)	\$ (283,213)	\$ (1,081,991)	\$ (623,941)
Items not involving cash:				
Amortization	745	390	2,233	769
Royalty expense and interest	26,124	67,792	125,597	213,325
Changes in non-cash working capital items:				
Accounts receivable	60,488	(28,629)	(26,795)	38,172
Equipment	-	-	-	(5,350)
Inventory	(101,388)	15,824	(122,275)	13,876
Prepaid deposits	(54,753)	-	(293,990)	1,311
Interest Payable on Factoring	4,627	4,706	4,627	4,706
Accounts payable and accrued liabilities	322,315	(91,653)	341,327	153,521
Net cash used in operating activities	(108,772)	(314,783)	(1,051,267)	(203,611)
Financing Activities:				
Loan proceeds (repayment)	(58,687)	8,508	(135,162)	(26,691)
Advance on issuance	325,000	-	625,000	-
Issuance of shares	75,000	494,084	1,273,457	503,284
Advances from related parties (repayment)	(50,262)	(101,990)	(602,683)	(188,520)
Net cash from financing activities	291,051	400,602	1,160,612	288,073
Increase (decrease) in cash	182,278	85,819	109,345	84,1462
Cash (deficiency), beginning of period	3,084	(1,707)	76,017	(350)
Cash (deficiency), end of period	\$ 185,362	\$ 84,112	\$ 185,362	\$ 84,112

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

ATI AIRTEST TECHNOLOGIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2021

(Expressed in Canadian dollars, except where noted)

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”).

The Company’s head office and warehouse is located at Unit 9-1520 Cliveden Ave, Delta, BC.

On December 29, 2017, the Company signed a royalty agreement (“Royalty Agreement”) with Omni Marketing Global Ltd. (“OMG”), a company controlled by a director. Under this agreement, OMG will eliminate loans and interest by ATI for an aggregate value of \$1,013,299, which was included under convertible debt loan and related party payables, noted above, as at December 31, 2017. In addition, OMG advanced \$1,000,000 to the Company and in return, the Company will pay OMG a 5% royalty on monthly gross sales commencing January 1, 2018. All late monthly royalty payments are subject to 3% default interest rate. As at September 30, 2021, the Company is not in default.

Per the Royalty Agreement, if the agreement is terminated due to a breach, of any obligation herein, then OMG shall be entitled, in addition to the royalty payments, to a payment equal to \$2,013,299 plus 25% per year that the Royalty Agreement has been in effect, less all royalty payments that have been made from the Company to OMG during the term of the Royalty Agreement (Note 12).

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, 2021 of \$5,964,892 and has accumulated a deficit of \$19,659,926 to date. 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.

Since March 1, 2020, the outbreak of the novel strain of coronavirus, specifically identified as “COVID-19”, has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused material disruption to businesses globally resulting in an economic slowdown. Global equity markets have experienced significant volatility and weakness. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions. The duration and impact of the COVID-19 outbreak is unknown at this time, as is the efficacy of the government and central bank interventions. It is not possible to reliably estimate the length and severity of these developments and the impact on the financial results and condition of the Company in future periods.

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.

2. Statement of compliance and basis of measurement (continued)

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

3. Significant accounting policies**Basis of consolidation**

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

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

3. Significant accounting policies (continued)

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%

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.

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

3. Significant accounting policies (continued)

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.

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 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.

3. Significant accounting policies (continued)

Financial assets/liabilities	Classification IFRS 9
Cash	FVTPL
Derivative liability	FVTPL
Accounts receivable	Amortized cost
Accounts payable	Amortized cost
Factoring facility	Amortized cost
Advances payable	Amortized cost
Term loans	Amortized cost
Convertible notes	Amortized cost
Due to related parties	Amortized cost

(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.

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

3. Significant accounting policies (continued)

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.

Leases

For any new contracts entered into on or after January 1, 2019, the Company considers whether a contract is, or contains a lease. A lease is defined as 'a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration'. To apply this definition the Company assesses whether the contract meets three key evaluations which are whether:

- i. the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Company;
- ii. the Company has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract; and
- iii. the Company has the right to direct the use of the identified asset throughout the period of use. The Company assess whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

Measurement and recognition of leases as a lessee

At lease commencement date, the Company recognizes a right-of-use asset and a lease liability on the balance sheet. The Company depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Company also assesses the right-of-use asset for impairment when such indicators exist.

At the commencement date, the Company measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease if that rate is readily available. If the interest rate implicit in the lease is not readily available, the Company discounts using the Company's incremental borrowing rate. Lease payments included in the measurement of the lease liability

3. Significant accounting policies (continued)

are made up of fixed payments (including in substance fixed), variable payments based on an index or rate, amounts expected to be payable under a residual value guarantee and payments arising from options reasonably certain to be exercised.

Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments. When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

The Company has elected to account for short-term leases and leases of low-value assets using the practical expedients. Instead of recognizing a right-of-use asset and lease liability, the payments in relation to these are recognized as an expense in profit or loss on a straight-line basis over the lease term. On the statement of financial position, right-of-use assets have been included under non-current assets and lease liabilities have been included under current and non-current liabilities.

4. Significant judgments, 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.

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

	September 30, 2021	December 31, 2020
Trade receivables	\$ 137,961	\$ 137,718
Trade receivables factored (Note 8)	190,786	164,234
Allowance for doubtful amounts	(137,527)	(137,527)
	<u>\$ 191,220</u>	<u>\$ 164,425</u>

ATI AIRTEST TECHNOLOGIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2021

(Expressed in Canadian dollars, except where noted)

6. Inventory

Inventory at September 30, 2021 consists of the following:

	September 30, 2021	December 31, 2020
Finished goods	\$ 74,080	\$ 49,388
Work in progress	21,305	24,945
Raw materials and component parts	185,255	84,032
	\$ 280,640	\$ 158,365

For the quarter ended September 30, 2021, inventory recognized as an expense in cost of sales amounted to \$245,774 (2020 - \$302,192). As at September 30, 2021, the Company anticipates that the net inventory will be realized within one year.

7. Accounts payable and accrued liabilities

	September 30, 2021	December 31, 2020
Trade payables	\$ 1,720,790	\$ 1,368,899
Due to government agencies	133,192	179,533
Payroll accrual and vacation payable	5,600	3,603
Accrued obligations	102,648	68,868
	\$ 1,962,230	\$ 1,620,903

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:

ATI AIRTEST TECHNOLOGIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2021

(Expressed in Canadian dollars, except where noted)

	September 30, 2021		December 31, 2020	
Funds advanced:				
Factored accounts receivable	\$	171,840	\$	138,913
Purchase orders		31,808		51,672
	\$	203,648	\$	190,585

9. Advances payable

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

10. Term loans

The Company's term loans are comprised as follows:

	September 30, 2021		December 31, 2020	
(1)	\$	18,178	\$	18,178
(2)		9,565		19,421
(3)		27,805		27,805
	\$	55,548	\$	65,404

- (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 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.

On September 13, 2019, the Company renegotiated the amounts owed to be equal to \$30,536 to be repaid with interest totaling \$8,912 at the rate of \$303.45 weekly commencing September 30, 2019 until March 18, 2022.

The principal owing on this loan was \$13,027 (Dec 2020: \$19,421). During the quarter ended June 30, 2021, the Company incurred interest charges in the amount of \$663 (2020: \$1,291) in connection with these loans.

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- (3) In April 2020, the Company received \$40,000 in the form of a Canada Emergency Business Account (“CEBA”) loan. CEBA is part of the economic assistance program launched by the Government of Canada to ensure that businesses have access to capital during the COVID-19 pandemic and can only be used to pay non-deferrable operating expenses. During the period from receipt of the CEBA loan to December 31, 2022 (the “Initial Term”), no interest is charged on the amount outstanding and should at least \$30,000 be repaid on or before the end of the Initial Term, the remaining \$10,000 of principal would be forgiven. If at the end of the Initial Term the loan is not repaid, the Company has the right to exercise the option to convert the CEBA loan into a three-year term loan bearing interest at 5% per annum. The Company anticipates to repay \$30,000 prior to the end of the Initial Term. During the year end December 31, 2020, the Company recognized a gain from loan forgiveness of \$10,000 (2019 - \$nil). The loan is carried at amortized cost based on an 10% market interest rate causing the underlying value to be lower than the original principal value with a difference of \$3,243 at inception which was recognized as a gain in the profit and loss. During the year ended December 31, 2020, interest accretion was \$1,048 (2019 - \$nil).

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.

The convertible promissory notes are summarized as follows:

Balance, September 30, 2021 and December, 2020	\$	250,000
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12. Related party transactions

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.

	September 30, 2021	September 30, 2020
Salaries	\$ 80,500	\$ 78,000

Related party loans

On December 29, 2017, the Company signed a royalty agreement (“Royalty Agreement”) with Omni Marketing Global Ltd. (“OMG”), a company controlled by a director. Under this agreement, OMG will eliminate loans and interest by ATI for an aggregate value of \$1,013,299, which was included under

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12. Related party transactions (continued)

convertible debt loan and related party payables, as at December 31, 2017. In addition, OMG advanced \$1,000,000 to the Company and in return, the Company will pay OMG a 5% royalty on monthly gross sales commencing January 1, 2018. All late monthly royalty payments are subject to 3% default interest rate. As at September 30, 2021, the Company is not in default.

Per the Royalty Agreement, if the agreement is terminated due to a breach, of any obligation herein, then OMG shall be entitled, in addition to the royalty payments, to a payment equal to \$2,013,299 plus 25% per year that the Royalty Agreement has been in effect, less all royalty payments that have been made from the Company to OMG during the term of the Royalty Agreement.

As at September 30, 2021, the net owing to OMG, excluding the royalty payment and interest, is \$2,013,299 (Dec, 2020 - \$2,013,299), of which \$250,000 is accounted for as convertible debenture and \$66,667 as accrued interest in accounts payable and accrued liabilities. During the quarter ended September 30, 2021, the Company recognized royalty expense and interest of \$26,124 (2020 - \$67,792). As at September 30, 2021, \$51,443 (Dec, 2020 - \$394,214) has been accrued as royalty expense and interest owing.

Accounts payable

At September 30, 2021, \$182,351 (Dec, 2020 - \$246,517) 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.

Non-current loans

As at September 30, 2021, \$173,086 (Dec, 2020 - \$173,086) 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.

13. Non-current loans

	December 31, 2020	December 31, 2019
Opening	\$ 1,012,933	\$ 1,351,632
Accretion expense	-	264,402
Gain on debt modification	-	(603,101)
	\$ 1,012,933	\$ 1,012,933

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.

14. Share capital

a) Authorized:

Unlimited common shares without par value

b) Issued and outstanding:

For the nine months ended September 30, 2021

In September 2021, the Company issued 1,000,000 shares for the exercise of warrants for proceeds of \$50,000.

In July 2021, the Company issued 500,000 shares for the exercise of warrants for proceeds of \$25,000.

In April of 2021, the Company closed a private placement for net proceeds of \$1,124,398 by issuing 9,927,001 shares at \$0.12 per unit where a unit consists of one common share plus one non-transferable warrant. Each warrant will entitle the holder to purchase one additional common share for a period of two years from the closing date at an exercise price of \$0.20.

In March 2021, the Company issued 1,600,000 shares for the exercise of warrants for proceeds of \$80,000.

For the year ended December 31, 2020

In January 2020, the Company closed a private placement of \$10,000 by issuing 500,000 units at \$0.02 per unit. Each unit costs of one common share plus one non-transferable warrant. Each warrant will entitle the holder to purchase one additional common share for a period of two years from the closing date at an exercise price of \$0.05.

In September 2020, the Company closed a private placement of \$500,000 by issuing 25,000,000 units at \$0.02 per unit. Each unit costs of one common share plus one non-transferable warrant. Each warrant will entitle the holder to purchase one additional common share for a period of two years from the closing date at an exercise price of \$0.05. The residual value of the warrants was determined to be \$5,000.

In December 2020, the Company closed a private placement of \$500,000 by issuing 10,000,000 units at \$0.05 per unit. Each unit costs of one common share plus one non-transferable warrant. Each warrant will entitle the holder to purchase one additional common share for a period of two years from the closing date at an exercise price of \$0.08.

In December 2020, the Company issued 500,000 shares for the exercise of warrants for proceeds of \$25,000.

14. Share capital (continued)*For the year ended December 31, 2019*

In March 2019, the Company closed a private placement of \$283,000 by issuing 14,150,000 units. Each unit comprised of one common share in the capital of the Company and one 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. In conjunction to the issuance, the Company paid finders fees in cash of \$28,002 and issuance 1,100,000 broker warrants, with the same terms as the private placement warrants. The fair value of the broker warrants was determined to be immaterial.

In March 2019, the Company issued 850,000 units of the Company for settlement of debt of \$17,000. Each unit consists of one common share and one 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. The fair value of the shares was \$21,250 and the warrants were fair valued at \$4,148, resulting in a loss of settlement of debt of \$8,398. The fair value of the warrants was determined using the Black Scholes Option Pricing Model using the following assumptions: stock price: \$0.025, exercise price: \$0.05, volatility: 100%, expected life: 1 year and risk-free interest rate of 1.68%.

(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.

	Number of Options	Weighted Average Exercise Price
Outstanding at December 31, 2018 and 2019	3,165,000	\$ 0.10
Issued	8,740,000	\$ 0.06
Cancelled	(3,165,000)	\$ 0.10
Outstanding at Sept 30, 2021 and December 31, 2020	8,740,000	\$ 0.06

The fair value of stock options granted for the year ended December 31, 2020 were estimated to be \$313,138 using the Black-Scholes option pricing model with the following weighted average assumptions: expected life of 5 years, volatility of 186.17%, dividend yield of 0% and risk-free interest rate of 0.50%. The weighted average grant date fair value of options granted was \$0.04.

As at September 30, 2021, 7,240,000 options with an exercise price of \$0.05 and expiring on December 14, 2025 were outstanding and exercisable and 1,500,000 options with an exercise price of \$0.08 and expiring on September 28, 2023 were outstanding and exercisable.

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14. Share capital (continued)

(e) Warrants:

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

	Number of Warrants	Weighted Average Exercise Price
Outstanding at December 31, 2018	-	\$ -
Issued	16,100,000	\$ 0.05
Outstanding at December 31, 2019	16,100,000	\$ 0.05
Issued	35,500,000	\$ 0.06
Expired	(16,100,000)	\$ 0.05
Exercised	(500,000)	\$ 0.05
Outstanding at December 31, 2020	35,000,000	\$ 0.06
Issued	9,927,001	\$ 0.20
Exercised	(3,100,000)	\$ 0.05
Outstanding at June 30, 2021	41,827,001	\$ 0.09

Expiration date	Exercise Price	Number of Warrants Outstanding at Sept 30, 2021
September 22, 2022	\$ 0.05	21,900,000
December 22, 2022	\$ 0.08	10,000,000
April 6, 2023	\$ 0.20	9,927,001
		41,827,001

15. Segmented information

During the quarter ended September 30, 2021, \$375,737 (2020 - \$410,700) of the Company's revenue was earned from customers domiciled in the United States.

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16. Supplementary information

Presentation of the Company's operating expenses by nature versus function for the quarters ended September 30, 2021 and 2020 is as follows:

	3rd Quarter 2021	3rd Quarter 2020	YTD 2021	YTD 2020
OPERATING EXPENSES				
General and administrative:				
Amortization	\$ 744	\$ 390	\$ 2,233	\$ 769
Automotive	3,025	3,842	10,450	12,851
Freight	7,470	5,864	20,681	19,309
Office and general	10,818	7,771	32,617	29,779
Professional and management fees	88,453	103,363	291,184	123,847
Regulatory fees	16,794	6,946	33,572	19,114
Rent and property tax	18,042	17,187	51,568	52,113
Salaries and benefits	104,551	100,124	320,945	308,900
Total general and administrative	249,897	245,487	763,250	566,682
Business development and marketing:				
Advertising	3,158	612	16,808	1,858
Auto	4,876	4,783	15,982	16,354
Business promotion	10,166	3,821	43,703	7,533
Meals and entertainment	553	541	553	4,673
Office and general	2,129	2,240	5,948	6,885
Salaries and benefits	175,286	168,036	529,001	512,378
Trade shows	16,484	-	16,484	18,007
Travel	2,279	-	2,411	12,048
Total business development and marketing	\$ 214,931	\$ 180,033	\$ 630,890	\$ 579,736

17. Right of use asset

The Company's right-of-use asset relates to the lease of office space.

Cost:	\$
Balance at January 1, 2019 and 2020	239,480
Accumulated amortization:	
Balance at January 1, 2019	-
Depreciation for the year	31,580
Balance at January 1, 2020	31,580
Depreciation for the year	31,580
Balance, December 31, 2020	63,160
Net book value:	
As of January 1, 2020	197,088
As of March 31, 2021 and December 31, 2020	176,320

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18. Lease liability

	\$
Balance at January 1, 2019, on adoption of IFRS 16	242,896
Interest expense	13,606
Lease payments	(37,995)
Balance at January 1, 2020	218,506
Interest expense	12,115
Lease payments	(37,995)
Balance, December 31, 2020	192,626
Which consist of:	
Current lease liability	19,313
Non-current lease liability	173,313
Balance, March 31, 2021 and December 31, 2020	192,626

The maturity analysis of the lease liabilities as at March 31, 2021 is as follows:

Maturity Analysis	\$
Less than one year	48,868
One to five years	161,733
Total undiscounted lease liabilities	210,601
Amount representing implicit interest	(13,975)
Balance at March 31, 2021	196,626

On August 1, 2018, the Company renewed the lease agreement for its head office premise for five years expiring July 31, 2023, with a renewal option of 3 years. Pursuant to this renewal, the Company is obligated to pay basic rent of \$3,166.25, on a monthly basis.

19. 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

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.

19. Financial instruments (continued)

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 September 31, 2021, 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. Three customers represent approximately 59% 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.

20. 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

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other management policies. Management plans additional funding in the remainder of 2014 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.

21. Derivative liability

	Year Ended December 31, 2020
Balance, Beginning	\$ 4,800
Fair value of warrants issued during the year	809,655
Fair value of warrants exercised during the year	(14,254)
Change in fair value of warrants outstanding	1,650,049
Balance, Ending	\$ 2,450,250

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

The fair values of these warrants were estimated using the Black-Scholes Option Pricing Model using the following assumptions.

- The stock price was based upon the unit price at the time of issuance;
- The risk-free interest rate assumption is based on the government of Canada marketable bonds for a period consistent with the expected term of the option in effect at the time of the grant;
- The Company does not pay dividends on common stock and does not anticipate paying dividends on its common stock in the foreseeable future. Therefore, the expected dividend rate was 0%;
- The expected life of the warrants was estimated to be 100% of the remaining contractual term which is based on the historical exercise patterns of warrant holders; and
- The expected volatility was based off of the historical trading prices of the Company's common stock price over a period equivalent to the expected life of the warrants.

The fair values of these warrants as of December 31, 2020 were estimated using the Black-Scholes Option Pricing Model using the following inputs

	December 31, 2020
Expected volatility	153% - 219%
Expected life	1.8 years
Dividends	0%
Risk-free interest rate	0.02% - 0.05%

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22. 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:

	December 31, 2020	December 31, 2019
Net loss	\$ (2,878,523)	\$ (277,558)
Statutory tax rate	27%	27%
Expected income tax recovery	(777,201)	(75,000)
Tax effect of:		
Permanent differences	523,000	27,600
Share issue costs	(1,000)	-
Prior year adjustments	(111,799)	-
Change in unrecognized deferred tax assets	367,000	47,400
Income tax recovery	\$ -	\$ -

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

	December 31, 2020	December 31, 2019
Non-capital loss carry-forwards	\$ 2,571,000	\$ 2,208,000
Share issuance costs	3,000	-
Equipment	48,000	47,000
Unrecognized deferred tax assets	(2,622,000)	(2,255,000)
	\$ -	\$ -

As at December 31, 2020, the Company has approximately \$9,522,000 of non-capital losses in Canada that may be used to offset future taxable income, expiring from 2026 to 2040.

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

23. Subsequent events

Subsequent to September 30, 2021, there have been another 10,500,000 warrants exercised at \$0.05 per share plus another 400,000 warrants exercised at \$0.08 per share.