

**PyroGenesis Canada Inc.**

**Condensed  
Interim Financial Statements**

Three months ended March 31, 2016 and 2015

(Unaudited)

**UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS**

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company discloses that its auditors have not reviewed the unaudited condensed interim financial statements for the period ended March 31, 2016.

# PyroGenesis Canada Inc.

## Condensed Interim Statements of Financial Position

(Unaudited) As at	March 31, 2016 \$	December 31, 2015 \$
<b>Assets</b>		
<i>Current assets</i>		
Cash	225,563	767,368
Accounts receivable [note 6]	187,487	359,185
Sales tax receivable	54,791	222,151
Costs and profits in excess of billings on uncompleted contracts [note 7]	103,364	72,865
Inventories	994,015	994,015
Investment tax credits receivable	717,184	608,369
Prepaid expenses	294,004	319,233
<b>Total current assets</b>	<b>2,576,408</b>	<b>3,343,186</b>
<b>Non-current assets</b>		
Deposits and other assets	107,530	107,530
Costs and profits in excess of billings on uncompleted contracts [note 7]	2,009,840	1,760,222
Property and equipment	481,515	513,771
Intangible assets	1,047,407	1,396,675
<b>Total assets</b>	<b>6,222,700</b>	<b>7,121,384</b>
<b>Liabilities</b>		
<i>Current liabilities</i>		
Accounts payable and accrued liabilities [note 8]	2,062,891	2,056,881
Current portion of loans [note 10]	1,028,766	472,166
Billings in excess of costs and profits on uncompleted contracts [note 9]	302,584	648,044
<b>Total current liabilities</b>	<b>3,394,241</b>	<b>3,177,091</b>
<b>Non-current liabilities</b>		
Convertible debentures [note 11]	3,395,120	3,328,722
<b>Total liabilities</b>	<b>6,789,361</b>	<b>6,505,813</b>
<b>Shareholders' equity (deficiency)</b>		
Common shares	24,044,772	24,044,772
Warrants reserve	734,004	734,004
Contributed surplus	5,379,986	5,313,555
Equity portion of convertible debentures [note 11]	572,582	572,582
Other equity	24,844	24,844
Deficit	(31,322,849)	(30,074,186)
	(566,661)	615,571
<b>Total liabilities and shareholders' equity (deficiency)</b>	<b>6,222,700</b>	<b>7,121,384</b>

Going concern disclosure, related party transactions, and subsequent events [notes 1, 15 and 19]

Approved on behalf of the Board:

[Signed by P. Peter Pascali] P. Peter Pascali

[Signed by Alan Curleigh] Alan Curleigh

The accompanying notes form an integral part of the financial statements

# PyroGenesis Canada Inc.

## Condensed Interim Statements of Comprehensive Loss

(Unaudited)

Three months ended March 31,	2016 \$	2015 \$
<b>Revenue [note 18]</b>	<b>1,016,853</b>	1,116,477
Cost of sales and services [note 14]	<b>1,072,524</b>	1,163,591
Gross profit	<b>(55,671)</b>	(47,114)
<b>Expenses (income)</b>		
Selling, general and administrative	<b>1,048,915</b>	1,191,327
Research and development	<b>42,877</b>	29,124
Finance costs [note 14]	<b>151,200</b>	11,524
Other income	<b>(50,000)</b>	-
	<b>1,192,992</b>	1,231,975
		-
<b>Net loss and comprehensive loss</b>	<b>(1,248,663)</b>	(1,279,089)
<b>Basic and diluted loss per share [note 16]</b>	<b>(0.01)</b>	<b>(0.02)</b>
Weighted average number of common shares outstanding - basic and diluted [note 16]	<b>93,666,729</b>	<b>84,829,618</b>

The accompanying notes form an integral part of the financial statements

# PyroGenesis Canada Inc.

## Condensed Interim Statements of Changes in Shareholders' Equity (Deficiency)

(Unaudited)

Three months ended March 31

	Number of Class A common shares	Class A common share capital \$	Warrants Reserve \$	Contributed surplus \$	Equity portion of convertible debentures \$	Other Equity \$	Deficit \$	Total \$
<b>Balance - December 31, 2015</b>	<b>93,666,729</b>	<b>24,044,772</b>	<b>734,004</b>	<b>5,313,555</b>	<b>572,582</b>	<b>24,844</b>	<b>(30,074,186)</b>	<b>615,571</b>
Share-based payments	-	-	-	66,431	-	-	-	66,431
Comprehensive loss during the period	-	-	-	-	-	-	(1,248,663)	(1,248,663)
<b>Balance – March 31, 2016</b>	<b>93,666,729</b>	<b>24,044,772</b>	<b>734,004</b>	<b>5,379,986</b>	<b>572,582</b>	<b>24,844</b>	<b>(31,322,849)</b>	<b>(566,661)</b>
Balance - December 31, 2014	84,796,729	22,712,406	2,669,104	2,628,305	-	24,844	(25,156,407)	2,878,252
Shares issued upon exercise of options	35,000	26,618	-	(19,268)	-	-	-	7,350
Expired warrants	-	-	(1,332,234)	1,332,234	-	-	-	-
Broker warrants	-	(53,813)	53,813	-	-	-	-	-
Equity portion of convertible debentures	-	-	-	-	580,015	-	-	580,015
Legal fees	-	8,301	-	-	-	-	-	8,301
Share-based payments	-	-	-	149,451	-	-	-	149,451
Comprehensive loss during the period	-	-	-	-	-	-	(1,279,089)	(1,279,089)
<b>Balance – March 31, 2015</b>	<b>84,831,729</b>	<b>22,693,512</b>	<b>1,390,683</b>	<b>4,090,722</b>	<b>580,015</b>	<b>24,844</b>	<b>(26,435,496)</b>	<b>2,344,280</b>

The accompanying notes form an integral part of the financial statement

# PyroGenesis Canada Inc.

## Condensed Interim Statements of Cash Flows

(Unaudited)

For the three months ended March 31,

	2016	2015
	\$	\$
<b>Cash flows provided by (used in)</b>		
<b>Operating activities</b>		
Comprehensive loss	(1,248,663)	(1,279,089)
Adjustments for:		
Share-based payments	66,431	149,451
Depreciation on property and equipment	32,256	40,086
Finance costs	151,200	11,524
Amortization of intangible assets	349,268	349,268
	(649,508)	(728,760)
Net change in non-cash operating working capital items <i>[note 13]</i>	(364,095)	764,334
Interest paid	(84,802)	(11,524)
	(1,098,405)	24,050
<b>Investing activity</b>		
Purchase of property and equipment	-	(12,207)
<b>Financing activities</b>		
Proceeds from (repayment of) loans	556,600	(553,943)
Proceeds from issuance of convertible debentures	-	3,245,000
Proceeds from issuance of common shares upon exercise of option	-	7,350
Costs related to issuance of common shares	-	8,301
Costs related to issuance of convertible debentures	-	(239,000)
	556,600	2,467,708
<b>Net increase (decrease) in cash</b>	<b>(541,805)</b>	<b>2,479,551</b>
Cash - beginning of period	767,368	362,183
<b>Cash - end of period</b>	<b>225,563</b>	<b>2,841,734</b>
Supplemental cash flow disclosure		
Non-cash transactions:		
Issuance of convertible debentures in partial settlement of balance of sale	-	755,000

The accompanying notes form an integral part of the financial statements

## Notes to Condensed Interim Financial Statements

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(Unaudited)

For the three months ended March 31, 2016

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### 1. Nature of operations and going concern disclosure

#### (a) Nature of operations

PyroGenesis Canada Inc. (the "Company"), incorporated under the laws of the Canada Business Corporations Act, was formed by the amalgamation of PyroGenesis Canada Inc. with Industrial Growth Income Company ("IGIC") on July 11, 2011. The Company owns patents of advanced waste treatment systems technology and provides design, develops, manufactures and commercialises advanced plasma processes and systems. The Company is domiciled at 1744 William Street, Suite 200, Montreal, Quebec. The Company is publicly traded on the TSX Venture Exchange under the Symbol "PYR" and on the OTCQB in the USA under the symbol "PYRNF".

#### (b) Going concern

These condensed interim financial statements have been prepared on the going concern basis, which presumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future.

The Company is subject to a number of risks and uncertainty associated with the successful development of its products and with the financing requirements of its operations. The achievement of profitable operations is dependent upon future events, including successful development and introduction of new products to its family of products and obtaining adequate financing.

The Company has incurred, in the last several years, operating losses and negative cash flow from operations, with \$1,248,663 of losses occurring in 2016 and resulting in an accumulated deficit of \$31,322,849 at March 31, 2016. Furthermore, as at March 31, 2016, the Company's current liabilities and expected level of expenses for the next twelve months exceed cash on hand of \$225,563. The Company has relied upon external financings to fund its operations in the past, primarily through the issuance of equity, debt, and convertible debentures, as well as from investment tax credits.

The Company's business plan is dependent upon raising additional funds to finance operations within and beyond the next twelve months. While the Company has been successful in securing financing in the past, raising additional funds is dependent on a number of factors outside the Company's control, and as such there is no assurance that it will be able to do so in the future. If the Company is unable to obtain sufficient additional financing, it may have to curtail operations and development activities, any of which could harm the business, financial condition and results of operations. Until such financing is secured, these conditions indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue operating as a going concern and realise its assets and settle its liabilities and commitments in the normal course of business.

In the future, it may be necessary for the Company to raise additional capital to fund its operations and continued development and introduction of new products to its family of products. To date, the Company has raised financing through successive issuances of equity and convertible debentures. There is no certainty that the Company will continue to raise additional financing or expand its sales to fund its operations.

The condensed interim financial statements have been prepared on a going concern basis and do not include any adjustments to the amounts and classifications of the assets and liabilities that might be necessary should the Company be unable to achieve its plan and continue in business. If the going concern assumption were not appropriate for these condensed interim financial statements then adjustments would be necessary to the carrying value of assets and liabilities, the reported expenses and the condensed interim statements of financial position classifications used. The impact on the condensed interim financial statements could be material.

## Notes to Condensed Interim Financial Statements

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(Unaudited)

For the three months ended March 31, 2016

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### 2. Basis of preparation

(a) Statement of compliance:

These condensed interim financial statements of the Company have been prepared in accordance with International Accounting Standard (“IAS”) 34 – *Interim Financial Reporting*. These condensed interim financial statements do not include all of the necessary information required for full annual financial statements in accordance with International Financial Reporting Standards (“IFRS”) and should be read in conjunction with the Company’s audited annual financial statements for the year ended December 31, 2015.

These condensed interim financial statements were approved and authorized for issuance by the Board of Directors on May 27, 2016.

(b) Functional and Presentation Currency

These condensed interim financial statements are presented in Canadian dollars, which is the Company’s functional currency.

(c) Basis of measurement

These condensed interim financial statements have been prepared on the historical cost basis.

### 3. Significant accounting policies

The accounting policies applied by the Company in these condensed interim financial statements are the same as those applied by the Company in its audited annual financial statements as at and for the year ended December 31, 2015.

### 4. Significant accounting judgments, estimates and assumptions

The accounting judgments, estimates and assumptions applied by the Company in these condensed interim financial statements are the same as those applied by the Company in its audited annual financial statements as at and for the year ended December 31, 2015.

### 5. Adopted and future accounting policies

#### (a) New standards, interpretations and amendments adopted on January 1, 2016

On January 1, 2016, the Company adopted the following new or amended IFRS standards and Interpretations of IFRS (“Interpretations”) that are mandatory for application from that date. The adoption of these new or amended IFRS standards and Interpretations did not result in substantial changes to the Company’s accounting policies and had no material effect on the amounts reported for the current or prior financial periods.

#### Disclosure Initiative: Amendments to IAS 1

The amendments to IAS 1, *Presentation of Financial Statements*, issued in December 2014, are part of the IASB major initiative to improve presentation and disclosure in financial reports (The “Disclosure Initiative”). These amendments have not required any significant change to current practice, but should facilitate improved financial statement disclosures.

# PyroGenesis Canada Inc.

## Notes to Condensed Interim Financial Statements

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(Unaudited)

For the three months ended March 31, 2016

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### 5. Adopted and future accounting policies (continued)

#### (b) Recent accounting pronouncements and amendments not yet effective

The Company has not yet applied the following new or amended IFRS standards and interpretations that have been issued as at March 31, 2016 but are not yet effective. The Company does not plan to early adopt any of these new or amended standards and interpretations.

#### **IFRS 15, Revenue from Contracts with Customers**

On May 28, 2014, the IASB issued IFRS 15, Revenue from Contracts with Customers. The new standard is effective for annual periods beginning on or after January 1, 2018. Earlier application is permitted. IFRS 15 will replace IAS 11, Construction Contracts, IAS 18, Revenue, IFRIC 13, Customer Loyalty Programmes, IFRIC 15, Agreements for the Construction of Real Estate, IFRIC 18, Transfer of Assets from Customers, and SIC 31, Revenue – Barter Transactions Involving Advertising Services.

The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized.

New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. The new standard applies to contracts with customers. It does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other IFRS.

The Company intends to adopt IFRS 15 in its financial statements for the annual period beginning on January 1, 2018. The extent of the impact of adoption of the standard has not yet been determined.

#### **IFRS 9, Financial Instruments**

On July 24, 2014, the IASB issued the complete IFRS 9 (IFRS 9 (2014)).

The mandatory effective date of IFRS 9 is for annual periods beginning on or after January 1, 2018 and must be applied retrospectively with some exemptions. Early adoption is permitted. The restatement of prior years is not required and is only permitted if information is available without the use of hindsight.

IFRS 9 (2014) introduces new requirements for the classification and measurement of financial assets. Under IFRS 9 (2014), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows.

The standard introduces additional changes relating to financial liabilities.

It also amends the impairment model by introducing a new “expected credit loss” model for calculating impairment.

IFRS 9 (2014) also includes a new general hedge accounting standard which aligns hedge accounting more closely with risk management. This new standard does not fundamentally change the types of hedging relationships or the requirement to measure and recognize ineffectiveness; however, it will provide more hedging strategies that are used for risk management to qualify for hedge accounting and introduce more judgment to assess the effectiveness of a hedging relationship.

Special transitional requirements have been set for the application of the new general hedging model.

The Company intends to adopt IFRS 9 (2014) in its financial statements for the annual period beginning on January 1, 2018. The extent of the impact of adoption of the standard has not yet been determined.

## Notes to Condensed Interim Financial Statements

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(Unaudited)

For the three months ended March 31, 2016

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### 5. Adopted and future accounting policies (continued)

#### IFRS 16, Leases

On January 13, 2016, the IASB issued IFRS 16, Leases.

The new standard is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted for entities that apply IFRS 15, Revenue from Contracts with Customers at or before the date of initial adoption of IFRS 16. IFRS 16 will replace IAS 17, Leases.

This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments.

This standard substantially carries forward the lessor accounting requirements of IAS 17, while requiring enhanced disclosures to be provided by lessors.

Other areas of the lease accounting model have been impacted, including the definition of a lease. Transitional provisions have been provided.

The Company intends to adopt IFRS 16 in its financial statements for the annual period beginning on January 1, 2019. The extent of the impact of adoption of the standard has not yet been determined.

### 6. Accounts receivable

Details of accounts receivable were as follows:

	March 31, 2016 \$	December 31, 2015 \$
1 – 30 days	79,543	143,316
30 – 60 days	-	145,213
61 – 90 days	75,020	-
Greater than 90 days	32,916	70,656
Total	187,479	359,185
Other receivable	8	-
	<b>187,487</b>	<b>359,185</b>

Accounts receivable are carried net of an allowance for doubtful accounts. This allowance is established based on the Company's best estimates regarding the ultimate recovery of balances for which collection is uncertain. Uncertainty of ultimate collection may become apparent from various indicators, such as a deterioration of the credit situation of a given client and delay in collection beyond the contractually agreed upon payment terms. Management regularly reviews accounts receivable, monitors past due balances and assesses the appropriateness of the allowance for doubtful accounts. No amounts were impaired at March 31, 2016 and December 31, 2015.

# PyroGenesis Canada Inc.

## Notes to Condensed Interim Financial Statements

(Unaudited)

For the three months ended March 31, 2016

### 7. Costs and profits in excess of billings on uncompleted contracts

As at March 31, 2016, the Company had three contracts in which the billings to date were less than the total costs incurred and has recognized cumulative revenue of \$736,610 since those projects began. This compares with cumulative revenue of \$781,757 from three contracts as at December 31, 2015.

As at December 31, 2015, the Company reclassified \$1,760,222 of costs and profits in excess of billings on an uncompleted contract as non-current pending the resolution of differences that arose in December 2015 between the Company and the customer regarding the technical specifications of this contract. At the date of the financial statements, these differences have not yet been resolved and the timing of the resolution remains uncertain. Management believes that they have respected the terms of the contract and expect to recover the full amounts owing under the contract, and no impairment loss has been recorded in connection with the net assets related to this contract.

### 8. Accounts payable and accrued liabilities

	<b>March 31, 2016</b>	December 31, 2015
	<b>\$</b>	<b>\$</b>
Accounts payable trade	<b>1,136,541</b>	1,196,851
Accrued liabilities	<b>605,413</b>	625,818
Accounts payable - shareholder	<b>165,319</b>	161,933
Accounts payable - trust beneficially owned by a shareholder	<b>155,618</b>	72,279
	<b>2,062,891</b>	2,056,881

### 9. Billings in excess of costs and profits on uncompleted contracts

The amount to date of costs incurred and recognized profits less recognized losses for construction projects in progress amounted to \$2,034,520 (December 31, 2015 - \$2,865,970).

Payments received on contracts in progress were \$2,287,105 (December 31, 2015 - \$3,464,010) in cash and \$50,000 of other assets for 2016.

# PyroGenesis Canada Inc.

## Notes to Condensed Interim Financial Statements

(Unaudited)

For the three months ended March 31, 2016

### 10. Loans

	<b>March 31, 2016</b>	December 31, 2015
	<b>\$</b>	\$
Balance of sale - company under common control (i)	<b>472,166</b>	472,166
SR&ED loan (ii)	<b>406,600</b>	-
Other loan (iii)	<b>150,000</b>	-
	<b>1,028,766</b>	472,166
Current portion	<b>1,028,766</b>	472,166
	-	-

(i) Balance of sale – company under common control (“Balance of Sale”) arose from the purchase of the intangible assets in March 2011. Under the purchase agreement, the consideration was to be payable in monthly instalments of \$100,000 from October 1, 2017 with implicit interest rate of 4.753% per annum. However, in the event of any change within the Company that would be considered material by the holder of the Balance of Sale, such as a significant financial development, any and all amounts outstanding will become immediately due and payable on the date of the material change.

On March 30, 2015, the Company closed a private placement of \$4,000,000, principal amount unsecured subordinated convertible debentures of the Company (see Note 11). As part of the private placement, \$755,000 of the convertible debentures were purchased from the settlement of \$755,000 of the notional value of the Balance of Sale, representing the last twenty monthly payments owed by the Company under the purchase agreement.

On December 31, 2015, the Company signed an additional amending agreement to postpone the commencement of the instalments until October 1, 2017. However, in the event of any change within the Company that would be considered material by the holder of the Balance of Sale, such as a significant financial development, any and all amounts outstanding will become immediately due and payable on the date of the material change.

The amount of deferred payments which resulted from the various amendments and contained within the carrying value of the Balance of Sale totaled \$472,166 at March 31, 2016 (December 31, 2015 - \$472,166).

(ii) In February 2016, the Company announced a financing in the form of two loans with respect to its scientific research and experimental development tax credit (“SR&ED Tax Credits”) for the Company’s fiscal years ending December 31, 2014 and 2015. The loans total \$456,200 but less \$49,600 holdback to be disbursed upon reception of notice of assessment, with terms of 9 months and 12 months, bear interest at 18% per annum and a one-time management fee of 5%. Pursuant to the financing, the Company granted R&D Capital Inc. a security interest and movable hypothec on its assets, with a first rank claim on the refundable portion of its SR&ED Tax Credits for each of the fiscal years ending December 31, 2014 and 2015.

(iii) In March 2016, the Company entered into loan agreement whereby the Company provided its other assets as security in exchange for a loan of \$150,000. The loan bears no interest and is repayable on or before July 15, 2016.

# PyroGenesis Canada Inc.

## Notes to Condensed Interim Financial Statements

(Unaudited)

For the three months ended March 31, 2016

### 11. Convertible debentures

On March 30, 2015, the Company completed a \$4,000,000 unsecured and subordinated convertible debentures issue which matures in three years from the date of issuance and bears interest at 7.5% per annum, payable quarterly. The debentures were subject to a statutory hold period of four months and one day from the closing date.

The convertible debentures are convertible into common shares of the Company at any time at the option of the holder at a conversion price of \$0.80 per common share, and upon giving effect to such conversion, all accrued and unpaid interest will be paid in full within 60 days. The Company may redeem the Debentures at any time prior to the maturity date by paying to the holder a redemption price equal to:

- (i) the entirety of the principal amount;
- (ii) any interest accrued thereon as of the redemption date; and
- (iii) any interest to be accrued (but not yet accrued as of the redemption date) thereon up until maturity date.

In the event that the average market price of the common shares over the course of the 20 trading days immediately preceding the date of the redemption notice is equal to or greater than \$1.20, then the redemption price shall then be calculated as comprising (i) the entirety of the principal amount; and (ii) any interest accrued thereon as of the redemption date only.

Consistent with IAS 32, *Financial Instruments: Presentation*, the Company valued the liability component using a discounted cash flow model at the current interest rate of 14.61% on March 30, 2015, being the closing date of the convertible debentures. After considering financing costs, the value of the liability component was \$3,140,222 and the equity component was assigned the residual amount of \$572,582. Using the effective interest rate method and the 14.61% rate implicit in the calculation, characterized as the debt discount is accreted to expense over the term of the convertible debentures.

As part of the private placement of \$4,000,000, \$755,000 of the convertible debenture were purchased from the settlement of \$755,000 of the carrying value of the Balance of Sale (Note 10 (i)).

The convertible debentures have been segregated into their liability and equity components on the statements of financial position using the residual valuation approach. On initial recognition, the liability component is recorded as a liability at amortized cost. The financial liability component has been assigned a value equal to the discounted present value of the future interest and principal payments. The remaining component, representing the value ascribed to the holder's option to convert the principal balances into common shares, is classified in shareholders' equity.

At the issuance date the convertible debentures were recorded as follows

Debt component, net of transactions cost of \$242,905	\$ 3,140,222
Conversion option recognized in equity, net of transaction cost of \$44,291	572,582
<b>Net proceeds</b>	<b>\$ 3,712,804</b>

The convertible debentures outstanding at March 31, 2016 have been recorded as follows:

Issuance	\$ 3,140,222
Effective interest accretion	254,898
<b>Balance, end of period</b>	<b>\$ 3,395,120</b>

# PyroGenesis Canada Inc.

## Notes to Condensed Interim Financial Statements

(Unaudited)

For the three months ended March 31, 2016

### 12. Shareholders' equity

#### Stock option plan

The option activity, under the stock option plan and information concerning outstanding and exercisable options, is as follows:

	Options Issued	Weighted average exercise price \$
Balance – December 31, 2014	3,916,000	\$0.28
Options granted	2,630,000	\$0.30
Options exercised	(35,000)	\$0.21
Options forfeited	(170,000)	\$0.21
Balance – March 31, 2015	6,341,000	
Options granted	500,000	\$0.30
Options forfeited	(435,000)	\$0.20
Balance – December 31, 2015	6,406,000	\$0.30
Options granted	-	-
Balance – March 31, 2016	6,406,000	\$0.30

As at March 31, 2016, the outstanding options, as issued under the stock option plan to directors, officers, employees and consultants for the purchases of one common share per option, are as follows:

Outstanding	Exercisable	Weighted averaged exercise price	Expiry date
500,000	500,000	\$0.800	July 2016
550,000	550,000	\$0.175	September 2017
100,000	100,000	\$0.150	September 2017
2,026,000	2,026,000	\$0.210	November 2017
100,000	100,000	\$0.220	May 2018
2,630,000	1,217,000	\$0.300	February 2020
400,000	40,000	\$0.320	June 2020
100,000	10,000	\$0.360	July 2020
6,406,000	4,543,000	0.298	

# PyroGenesis Canada Inc.

## Notes to Condensed Interim Financial Statements

(Unaudited)

For the three months ended March 31, 2016

### 12. Shareholders' equity (continued)

#### Warrants

At March 31, 2016, the following exercisable warrants were outstanding:

	Granted and Exercisable	Weighted average exercise price	Expiry date
Balance – December 31, 2014	13,758,793	\$0.82	
Warrants expired	(4,424,555)	\$1.20	March 29, 2015
Broker warrants issued	270,417	\$0.60	March 30, 2017
Balance – March 31, 2015	9,604,655	\$0.64	
Warrants expired	(2,906,183)	\$0.85	November 22, 2015
Broker warrants expired	(325,198)	\$0.60	November 22, 2015
Warrants issued	4,417,500	\$0.50	December 11, 2017
Broker warrants issued	91,000	\$0.20	December 11, 2017
Warrants expired	(3,660,000)	\$0.55	December 20, 2015
Balance – December 31, 2015	7,221,774	\$0.51	
	-	-	
<b>Balance – March 31, 2016</b>	<b>7,221,774</b>	<b>\$0.51</b>	

### 13. Supplemental disclosure of expenses and cash flow information

*Net changes in non-cash components of operating working capital*

For the three months ended March 31,	2016 \$	2015 \$
<b>Decrease (increase) in:</b>		
Accounts receivable	171,698	931,136
Sales tax receivable	167,360	18,980
Costs and profits in excess of billings on uncompleted contracts	(280,117)	(430,212)
Investment tax credits receivable	(108,815)	(56,434)
Prepaid expenses	25,229	134,667
<b>Increase (decrease) in:</b>		
Accounts payable and accrued liabilities	6,010	59,213
Billings in excess of costs and profits on uncompleted contracts	(345,460)	106,984
	<b>(364,095)</b>	<b>764,334</b>

# PyroGenesis Canada Inc.

## Notes to Condensed Interim Financial Statements

(Unaudited)

For the three months ended March 31, 2016

### 14. Other information

The aggregate amortization of intangible assets expense for the quarters ended March 31, 2016 and March 31, 2015 was \$349,268 and \$349,268, respectively, and is recorded in cost of sales and services.

Depreciation on property and equipment amounted to \$32,256 for the quarter ended March 31, 2016 (2015 - \$40,086) and is expensed to selling, general and administrative. Employee benefits totaled \$1,123,064 in the quarter ended March 31, 2016 (2014 - \$1,054,526) and included share-based compensation of \$66,431 (2015 - \$149,451).

Financing costs include the following items:

For the three months ended March 31,	<b>2016</b>	2015
	<b>\$</b>	\$
Interest on balance of sale –company under common control	-	11,524
Interest on convertible debentures	<b>75,000</b>	-
Accretion of convertible debentures	<b>46,881</b>	-
Amortization of financing cost	<b>19,517</b>	-
Interest on SR&ED loan	<b>9,802</b>	-
	<b>151,200</b>	11,524

### 15. Related party transactions

Rent was charged by a trust beneficially owned by a shareholder of the Company in the amount of \$47,560 (2015 - \$43,740). A balance due of \$126,961 (December 31, 2015 - \$72,279) is included in accounts payable and accrued liabilities.

Interest on balance of sale was charged by a company under common control in the amount of \$Nil (2015 - \$11,524). The balance of interest that has not been paid of \$317,319 (December 31, 2015 - \$317,319) is included in loans.

Interest on the convertible debentures was charged by a shareholder of the Company in the amount of \$14,156 (2015 - \$Nil).

Fees of \$31,000 were charged for services rendered by the independent directors who are members of the Company's Board of Directors (2015 - \$31,000). A balance of \$16,000 (December 31, 2015 - \$Nil) is included in accounts payable and accrued liabilities.

Fees of \$30,000 were charged for professional services rendered by a company controlled by a director of the Company (2015 - \$46,000).

# PyroGenesis Canada Inc.

## Notes to Condensed Interim Financial Statements

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(Unaudited)

For the three months ended March 31, 2016

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### 15. Related party transactions (continued)

The key management personnel of the Company are the members of the Board of Directors and certain executive officers. They control 66% of the Company's voting shares. Total compensation to key management consisted of salaries of \$175,173 (2015 - \$124,110), pension contributions of \$1,914 (2015 - \$1,938) and other benefits of \$10,717 (2015 - \$10,253). A balance of \$120,350 (December 31, 2015 - \$171,314) is included in accounts payable and accrued liabilities.

### 16. Loss per share

Basic loss per share amounts are calculated by dividing net loss for the period attributable to common shareholders by the weighted average number of common shares outstanding during the period.

The net loss and weighted average number of common shares used in the calculation of loss per share are as follows:

	2016 \$	2015 \$
Net loss for the period	(1,248,663)	(1,279,089)
Weighted average number of Class A common shares - basic and diluted	<b>93,666,729</b>	84,829,618
Basic and diluted loss per share	<b>(0.01)</b>	(0.02)

The diluted weighted average number of shares is calculated assuming the proceeds that arise from the exercise of outstanding and in the money options and warrants that are used to purchase Class A common shares of the Company at their average market price for the year. For the three months ended March 31, 2016 and March 31, 2015, potential shares from all outstanding options and warrants have been excluded from the calculation of diluted loss per share as their inclusion is considered anti-dilutive in periods when a loss is incurred.

# PyroGenesis Canada Inc.

## Notes to Condensed Interim Financial Statements

(Unaudited)

For the three months ended March 31, 2016

### 17. Financial instruments

As part of its operations, the Company carries a number of financial instruments. It is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments except as otherwise disclosed. The Company's overall risk management program focuses on the unpredictability of the financial market and seeks to minimize potential adverse effects on the Company's financial performance. The Company does not use derivative financial instruments to hedge these risks.

#### Foreign currency risk

The Company enters into transactions denominated in US dollars for which the related revenues, expenses, accounts receivable and accounts payable and accrued liabilities balances are subject to exchange rate fluctuations.

As at March 31, 2016, the following items are denominated in foreign currencies:

	US \$	CDN \$
Cash	144,761	187,769
Accounts receivable	132,670	172,087
Accounts payable and accrued liabilities	(227,682)	(296,954)
Total	49,749	62,902

As at December 31, 2015, the following items are denominated in foreign currencies:

	US \$	CDN \$
Cash	469,851	650,274
Accounts receivable	180,576	241,142
Accounts payable and accrued liabilities	(199,176)	(265,433)
Total	451,251	625,433

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Management has implemented a policy to manage foreign exchange risk by using its purchases in US dollars as a natural hedge against its revenue stream. Therefore, the Company does not hold derivative financial instruments to manage the fluctuation of exchange rate risk.

#### Sensitivity analysis

At March 31, 2016, if the US Dollar changes by 10% against the Canadian dollar with all other variables held constant, the impact on after-tax loss for the three months ended March 31, 2016 would have been \$6,300 (December 31, 2015 – \$63,000).

# PyroGenesis Canada Inc.

## Notes to Condensed Interim Financial Statements

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(Unaudited)

For the three months ended March 31, 2016

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### 17. Financial instruments (continued)

#### Credit concentration

As at March 31, 2016, three customers accounted for 74% (2015 – three customers for 79%) of revenues from operations and two customers accounted for 87% (December 31, 2015 – three customers for 74%) of the accounts receivable, representing the Company's major credit risk exposure. Credit concentration is determined based on customers representing 10% or more of total revenues and/or total accounts receivable. The Company believes that there is no unusual exposure associated with the collection of these receivables. The Company manages its credit risk by performing credit assessments of its customers and provides allowances for potentially uncollectible accounts receivable. The Company does not generally require collateral or other security from customers on accounts receivable.

#### Fair value of financial instruments

Financial instruments are comprised of cash, accounts receivable, accounts payable and accrued liabilities, loans and convertible debentures. There are three levels of fair value that reflect the significance of inputs used in determining fair values of financial instruments:

Level 1 — quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 — inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).

Level 3 — inputs for the asset or liability that are not based on observable market data.

The fair values of cash, accounts receivable, accounts payable and accrued liabilities, and loans approximate their carrying amounts due to their short-term maturities.

As of March 31, 2016 and December 31, 2015, the fair value of the convertible debentures approximate its carrying value.

#### Interest rate risk

Interest rate risk is the risk that the value of a financial instrument might be adversely affected by a change in interest rates. Changes in market interest rates may have an effect on the cash flows associated with some financial assets and liabilities, known as cash flow risk, and on the fair value of other financial assets or liabilities, known as price risk. The Company is not exposed to an interest rate risk as it has no debt at a variable interest rate but the Company is exposed to a risk of fair value on the convertible debentures as those financial instruments bear interest at fixed rates.

#### Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivery of cash or another financial asset. The Company's ability to continue as a going concern is dependent on management's ability to raise required funding through future equity and / or debt issuances and to generate positive cash flows from operations (see Note 1 (b)). The Company manages its liquidity risk by forecasting cash flows from operations and anticipating any investing and financing activities. Management and the Board of Directors are actively involved in the review, planning and approval of significant expenditures and commitments.

# PyroGenesis Canada Inc.

## Notes to Condensed Interim Financial Statements

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(Unaudited)

For the three months ended March 31, 2016

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### 17. Financial instruments (continued)

The following table summarizes the contractual maturities of financial liabilities as at March 31, 2016:

<b>Financial liability</b>	<b>Total</b>	<b>6 months or less</b>	<b>6-12 months</b>	<b>1-2 years</b>	<b>More than 2 years</b>
Accounts payable and accrued liabilities	2,062,891	2,062,891	-	-	-
Loans	1,028,766	150,000	406,600	472,166	-
Convertible debentures	4,900,000	150,000	150,000	600,000	4,000,000
	<b>7,989,344</b>	<b>2,360,578</b>	<b>556,600</b>	<b>1,072,166</b>	<b>4,000,000</b>

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The following table summarizes the contractual maturities of financial liabilities as at December 31, 2015:

<b>Financial liability</b>	<b>Total</b>	<b>6 months or less</b>	<b>6-12 months</b>	<b>1-2 years</b>	<b>More than 2 years</b>
Accounts payable and accrued liabilities	2,056,881	2,056,881	-	-	-
Loans	472,166	-	-	472,166	-
Convertible debentures	4,975,000	150,000	150,000	600,000	4,075,000
	<b>7,504,047</b>	<b>2,206,881</b>	<b>150,000</b>	<b>1,072,166</b>	<b>4,075,000</b>

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# PyroGenesis Canada Inc.

## Notes to Condensed Interim Financial Statements

(Unaudited)

For the three months ended March 31, 2016

### 18. Segment information

The Company operates in one segment, based on financial information that is available and evaluated by the Company's Board of Directors.

The Company's head office is located in Montreal, Quebec. The operation of the Company is located in one geographic area: Canada. The following is a summary of the Company's geographic information:

For the three months ended March 31,	2016 \$	2015 \$
Revenue from external customers		
Canada	192,439	508,655
United States	544,977	226,791
Europe	7,119	-
Asia	272,318	381,031
	<b>1,016,853</b>	<b>1,116,477</b>

The following is a summary of the Company's revenue by product line:

For the three months ended March 31,	2016 \$	2015 \$
Sales of goods under long-term contracts	230,712	810,984
Services	786,141	305,493
	<b>1,016,853</b>	<b>1,116,477</b>

### 19. Subsequent events

In April 2016, the Company announced plans to spin off 80% of its Additive Manufacturing ("3D Printing") business into an independent publicly-traded company ("3DCo"). 3DCo will maintain all rights to (i) produce metal and alloy powders for the 3D Printing industry using the Company's patented technology; and (ii) to distribute powder production systems and equipment under an exclusive world-wide license with the Company. This transaction is expected to be staged over the next four months, at which time the Company's shareholders will own and control all the issued and outstanding shares of both companies, either directly or indirectly. The spin-off is intended to be structured as a tax-free transaction to shareholders for Canadian income tax purposes; however, the final structure and method to effect this transaction remain to be finalized. The transaction is subject to customary conditions, regulatory approvals and tax considerations.

On April 22, 2016, the Company entered into an agreement with Industrial Alliance Securities for a best-efforts private placement offering for an aggregate cash proceeds of \$3,000,000 to be raised from the issuance of secured convertible debentures. The convertible debentures will mature 2 years from the date of issuance and will bear interest at a rate of 12% per annum, paid quarterly. On May 18, 2016, the Company announced that due to certain market conditions and other strategic reasons the Company is delaying the closing of the Offering to on or about June 17, 2016.