PyroGenesis Canada Inc.

Condensed
Interim Financial Statements

Three and the six months ended June 30, 2017 and 2016

(Unaudited)

CONDENSED INTERIM FINANCIAL STATEMENTS

The accompanying unaudited financial statements of PyroGenesis Canada Inc. have been prepared by and are the responsibility of the Company's management. The Company's independent auditor has not performed a review of these unaudited condensed interim financial statements for the period ended June 30, 2017.

PyroGenesis Canada Inc.

Condensed Interim Statements of Financial Position

(unaudited)

	June 30, 2017	December 31, 2016
	$	$
Assets		
Current		
Cash	**258,138**	385,257
Accounts receivable *[note 5]*	**1,036,230**	422,816
Sale taxes receivables	**86,973**	-
Costs and profits in excess of billings on uncompleted contracts *[note 6]*	**161,275**	475,994
Investment tax credits receivable	**699,731**	430,491
Prepaid expenses	**183,260**	254,405
Total current assets	**2,425,607**	1,968,963
Non-current		
Deposits and investments	**510,995**	436,730
Property plant and equipment	**1,570,686**	843,238
Deferred development costs	**192,017**	-
Total assets	**4,699,305**	3,248,931
Liabilities		
Current		
Accounts payable and accrued liabilities *[note 7]*	**1,565,862**	1,446,728
Billings in excess of costs and profits on uncompleted contracts *[note 8]*	**3,120,178**	1,980,822
Current portion of long-term debt *[note 9]*	**469,045**	620,766
Convertible debentures [note 10]	**3,756,748**	-
Total current liabilities	**8,911,833**	4,048,316
Non-current		
Long-term debt *[note 9]*	**14,555**	-
Convertible debentures *[note 10]*	**-**	3,605,897
Total liabilities	**8,926,388**	7,654,213
Shareholders' deficiency [note 11]		
Common shares	**26,597,937**	25,442,906
Warrants reserve	**504,015**	901,211
Contributed surplus	**6,007,137**	5,679,580
Equity portion of convertible debentures *[note 10]*	**572,582**	572,582
Other equity	**24,844**	24,844
Deficit	**(37,933,598)**	(37,026,405)
Total shareholders' deficiency	**(4,227,083)**	(4,405,282)
Total liabilities and shareholders' deficiency	**4,699,305**	3,248,931

Going concern disclosure *and* related party transactions *[notes 1, 14]*

Approved on behalf of the Board:

[Signed by P. Peter Pascali] P. Peter Pascali *[Signed by Alan Curleigh] Alan Curleigh*

PyroGenesis Canada Inc.

Condensed Interim Statements of Comprehensive Loss

(unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	**2017**	2016
	$	$	**$**	$
Revenue *[note 16]*	**2,173,397**	818,990	**3,869,535**	1,835,842
Cost of sales and services *[note 13]*	**1,130,295**	1,094,196	**1,950,559**	2,166,719
Gross profit	**1,043,102**	(275,206)	**1,918,976**	(330,877)
Expenses (income)				
Selling, general and administrative *[note 13]*	**1,133,456**	999,500	**2,282,371**	2,048,415
Research and development	**62,143**	18,712	**130,207**	61,589
Net finance costs (income) *[note 13]*	**456,087**	51,582	**413,591**	152,782
	1,651,686	1,069,794	**2,826,169**	2,262,786
Net loss and comprehensive loss	**(608,584)**	(1,345,000)	**(907,193)**	(2,593,663)
Basic and diluted loss per share	**(0.006)**	(0.014)	**(0.009)**	(0.028)
Weighted average number of common shares outstanding - basic and diluted	**104,547,016**	93,666,729	**103,526,411**	93,666,729

The accompanying notes form an integral part of the financial statements.

PyroGenesis Canada Inc.

Condensed Interim Statements of Changes in Shareholders' Deficiency

(unaudited)

	Number of Class A common shares	Class A common share capital	Warrants reserve	Contributed surplus	Equity portion of convertible debentures	Other Equity	Deficit	Total
		$	$	$	$	$	$	$
Balance - December 31, 2016	**101,858,434**	**25,442,906**	**901,211**	**5,679,580**	**572,582**	**24,844**	**(37,026,405)**	**(4,405,282)**
Shares issued upon exercise of warrants [note 11]	**2,930,357**	**1,025,611**	**(289,004)**	**-**	**-**	**-**	**-**	**736,607**
Shares issued upon exercise of stock options [note 11]	**383,000**	**129,420**	**-**	**(54,230)**	**-**	**-**	**-**	**75,190**
Share purchase warrants expired	**-**	**-**	**(108,192)**	**108,192**	**-**	**-**	**-**	**-**
Share-based payments	**-**	**-**	**-**	**273,595**	**-**	**-**	**-**	**273,595**
Comprehensive loss during the period	**-**	**-**	**-**	**-**	**-**	**-**	**(907,193)**	**(907,193)**
Balance – June 30, 2017	**105,171,791**	**26,597,937**	**504,015**	**6,007,137**	**572,582**	**24,844**	**(37,933,598)**	**(4,227,083)**
Balance - December 31, 2015	93,666,729	24,044,772	734,004	5,313,555	572,582	24,844	(30,074,186)	615,571
Share-based payments	-	-	-	102,296	-	-	-	102,296
Comprehensive loss during the period	-	-	-	-	-	-	(2,593,663)	(2,593,663)
Balance – June 30, 2016	93,666,729	24,044,772	734,004	5,415,851	572,582	24,844	(32,667,849)	(1,875,796)

The accompanying notes form an integral part of the financial statements.

PyroGenesis Canada Inc.

Condensed Interim Statements of Cash Flows

(unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	**2017**	2016
	$	$	**$**	$
Cash flows provided by (used in)				
Operating activities				
Net loss	**(608,584)**	(1,345,000)	**(907,193)**	(2,593,663)
Adjustments for:				
Share-based payments	**135,444**	35,865	**273,595**	102,296
Depreciation on property plant and equipment	**29,250**	32,255	**54,448**	64,511
Amortization of intangibles	**-**	349,269	**-**	698,537
Finance costs	**160,009**	51,582	**318,182**	202,782
Change in fair value of investments	**296,078**	-	**95,735**	-
	12,197	(876,029)	**(165,233)**	(1,525,537)
Net change in non-cash operating working capital items [note 12]	**(665,047)**	581,961	**504,727**	217,866
Interest paid	**(83,260)**	(93,297)	**(167,004)**	(178,099)
	(736,110)	(387,365)	**172,490**	(1,485,770)
Investing activities				
Purchase of property and equipment	**(363,861)**	-	**(756,375)**	-
Additions to deferred development costs	**(192,017)**	-	**(192,017)**	-
	(555,878)	-	**(948,392)**	-
Financing activities				
Repayment of loans	**(120,000)**	-	**(160,000)**	-
Repayment of capital lease obligations	**(2,261)**	-	**(3,014)**	-
Proceeds from issuance of shares upon exercise of warrants [note 11]	**318,750**	-	**736,607**	-
Proceeds from issuance of shares upon exercise of stock options	**75,190**		**75,190**	
Proceeds from loans	**-**	220,314	**-**	776,914
	271,679	220,314	**648,783**	776,914
Net increase (decrease) in cash	**(1,020,309)**	(167,051)	**(127,119)**	(708,856)
Cash - beginning of period	**1,278,447**	225,563	**385,257**	767,368
Cash - end of period	**258,138**	58,512	**258,138**	58,512
Supplemental cash flow disclosure				
Non-cash transactions:				
Purchase of equipment under capital lease obligations	**-**	-	**25,521**	-
Investments received in payment of contracts	**170,000**	-	**170,000**	-

The accompanying notes form an integral part of the financial statements.

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 on July 11, 2011. The Company owns patents of advanced waste treatment systems technology and designs, 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”. During the Company received approval to trade 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, resulting in an accumulated deficit of $37,933,598 as at June 30, 2017. Furthermore, as at June 30, 2017, the Company’s current liabilities and expected level of expenses for the next twelve months exceed cash on hand of $258,138. The Company currently has no committed sources of financing available. 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.

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.

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. Such adjustments could be material.

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, 2016.

These condensed interim financial statements were approved and authorized for issuance by the Board of Directors on August 28, 2017.

(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 except for investments which are accounted for at fair value.

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, 2016.

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, 2016.

5. Accounts receivable

Details of accounts receivable were as follows:

	June 30, 2017	December 31, 2016
	$	$
1 – 30 days	**680,883**	324,371
30 – 60 days		38,307
61 – 90 days	**345,407**	-
Greater than 90 days	**9,669**	-
Total	**1,035,959**	362,678
Other receivable	**271**	60,138
	1,036,230	422,816

There is no allowance for doubtful accounts recorded as at June 30, 2017 and December 31, 2016.

6. Costs and profits in excess of billings on uncompleted contracts

As at June 30, 2017, the Company had six contracts with total billings of $2,645,048 which were less than total costs incurred and had recognized cumulative revenue of $2,806,323 since those projects began. This compares with three contracts with total billings of $1,179,034 which were less than total costs incurred and had recognized cumulative revenue of $1,655,028 from three contracts as at December 31, 2016.

7. Accounts payable and accrued liabilities

	June 30, 2017	December 31, 2016
	$	$
Accounts payable trade	690,165	734,785
Accrued liabilities	652,765	545,018
Accounts payable – shareholder	134,173	126,237
Accounts payable - trust beneficially owned by a shareholder	88,759	40,688
	1,565,862	1,446,728

8. 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 $1,710,982 (Dec 31, 2016 - $1,006,973).

Payments received on contracts in progress were $4,781,160 and $50,000 of other assets (Dec 31, 2016 - $2,637,795 in cash and $300,000 of other assets).

9. Long-term debt

	June 30, 2017	December 31, 2016
	$	$
Balance of sale - company under common control	**272,166**	432,166
Term loans	**188,600**	188,600
Obligations under finance lease	**22,834**	-
	483,600	620,766
Instalments due within one year	**469,045**	620,766
Long-term debt	**14,555**	-

The expected interest payments related to finance lease for the next years amount to $1,277.

10. Convertible debentures

On March 30, 2015, the Company completed a $4,000,000 unsecured and subordinated convertible debenture issue which matures in 3 years from the date of issuance and bears interest at 7.5% per annum, payable quarterly.

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 convertible 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 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 be calculated as comprising (i) the entirety of the principal amount; and (ii) any interest accrued thereon as of the redemption date only.

10. Convertible debentures (continued)

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
Net proceeds	**3,712,804**

The debt component is being accreted using the effective interest rate method:

	June 30, 2017	December 31, 2016
		$
Balance, beginning of period	**3,605,897**	3,328,722
Effective interest accretion	**150,851**	277,175
Balance, end of period	**3,756,748**	3,605,897

11. Shareholders' equity

Issuance of shares

During the six-month ended June 30, 2017, the Company issued 2,930,357 common shares upon the exercise of warrants for a net proceeds of $736,607. The fair value of the warrants of $289,004 which was accounted for as contributed surplus has been reclassified as capital shares.

During the six-month ended June 30, 2017, 383,000 stock options were exercised for a net proceeds of $75,190. The amounts credited to share capital from the exercise of stock options include an ascribed value from contributed surplus of $54,230.

Stock option plan

As at June 30, 2017, an amount of $152,395 remains to be amortized in future periods (until October 2019) related to the grant of stock options.

The following table sets out the activity in stock options during the six-month ended June 30, 2017:

	Number of options	Weighted averag exercise price
		$
Options, December 31, 2016	**9,751,000**	**0.22**
Exercised	**(383,000)**	**(0.20)**
Forfeited	**(90,000)**	**(0.30)**
Long-term debt	**9,278,000**	**0.22**

11. Shareholders' equity (continued)

As at June 30, 2017, 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:

Issue date	Number of options	Exercise price	Number of exercisable options (1)	Expiry date
		$		
September 19, 2012	550,000	0.175	550,000	September 19, 2017
November 19, 2012	1,726,00	0.21	1,726,000	November 19, 2017
February 12, 2015	2,480,000	0.30	1,800,000	February 12, 2020
September 25, 2016	4,350,000	0.18	3,225,000	September 25, 2021
October 20, 2016	72,000	0.18	-	October 20, 2021
October 25, 2016	100,000	0.19	10,000	October 25, 2021
	9,278,000	0.22	7,311,000	

(1) At June 30, 2017, the weighted average price of the exercisable options was $0.22.

Share purchase warrants

The following table reflects the activity in warrants during the six months ended June 30, 2017 and the number of issued and outstanding share purchase warrants at June 30, 2017:

	Number of warrants December 31, 2016	Exercised	Expired	Number of warrants June 30, 2017	Price per warrant	Expiry date
					$	
Private placement – November 26, 2014	2,142,857	(2,142,857)	-	-	-	-
Broker warrants – March 30, 2015 (1)	270,417	-	(270,417)	-	-	-
Private placement – December 11, 2015	4,417,500	(287,500)	-	4,130,000	0.50	Dec. 11, 2017
Broker warrants– December 11, 2015	45,500	-	-	45,500	0.50	Dec. 11, 2017
Private placement – July 26, 2016	3,065,790	(500,000)	-	2,565,790	0.35	Jan. 26, 2018
Broker warrants– July 26, 2016	42,000	-	-	42,000	0.35	Jan. 26, 2018
	9,984,064	(2,930,357)	(270,417)	6,783,290	0.44	

(1) The broker share purchase warrants expired unexercised on March 30, 2017.

12. Supplemental disclosure of cash flow information

Net changes in non-cash components of operating working capital

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	**2017**	2016
	$	$	**$**	$
Decrease (increase) in:				
Accounts receivable	**(39,379)**	137,481	**(613,414)**	309,179
Sale taxes receivables	**(43,519)**	18,807	**(86,973)**	186,167
Costs and profits in excess of billings on uncompleted contracts	**(322,536)**	(102,059)	**144,719**	(382,176)
Investment tax credits receivable	**(136,994)**	3,103	**(269,240)**	(105,712)
Prepaid expenses	**134,971**	36,023	**71,145**	61,252
Increase (decrease) in:				
Accounts payable and accrued liabilities	**37,830**	36,590	**119,134**	42,600
Billings in excess of costs and profits on uncompleted contracts	**(295,420)**	452,016	**1,139,356**	106,556
	(665,047)	581,961	**504,727**	217,866

13. Other information

The aggregate amortization of intangible assets expense for the three and the six months ended June 30, 2017 was $Nil (2016 - $349,269 and $698,537) respectively, and is recorded in cost of sales and services.

For the three and the six months ended June 30, 2017, depreciation on property and equipment expensed as general and administrative amounted to $29,250 and $54,448 (2016 - $32,255 and $64,511), employee benefits totaled $1,273,200 and $2,478,793 (2016 - $1,081,333 and $2,204,397) and share-based compensation expense was $135,444 and $273,595 (2016 - $35,865 and $102,296), respectively.

Financing income and finance costs include the following items:

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	**2017**	2016
	$	$	**$**	$
Finance income				
Adjustment to the fair value of investments	**-**	110,000	**-**	110,000
Gain on disposal of investments	**-**	-	**-**	50,000
	-	110,000	**-**	160,000
Finance costs				
Interest on convertible debentures	**75,015**	75,000	**150,030**	150,000
Accretion of convertible debentures	**55,594**	48,507	**109,324**	95,388
Amortization of financing cost	**20,913**	19,778	**41,528**	39,295
Interest on long-term debt	**8,487**	18,297	**16,974**	28,099
Adjustment to the fair value of investments	**296,078**	-	**95,735**	-
	456,087	161,582	**413,591**	312,782
Net finance (income) and finance expenses	**456,087**	51,582	**413,591**	152,782

14. Related party transactions

During the three and the six months ended June 30, 2017, the company concluded the following transactions with related parties:

Rent was charged by a trust beneficially owned by a shareholder of the Company in the amount of $40,598 and $80,239 (2016 - $47,765 and $95,325), respectively. As at June 30, 2017, a balance due of $88,759 (December 31, 2016 - $40,688) is included in accounts payable and accrued liabilities.

The balance of interest on balance of sale charged by a company under common control that has not been paid of $272,166 (December 31, 2016 - $317,319) is included in loans.

Interest on the convertible debentures was charged by a shareholder of the Company in the amount of $14,171 and $28,342 (2016 – $14,156 and $28,312), respectively.

Fees of $36,000 and $59,000 were charged for services rendered by the independent directors who are members of the Company’s Board of Directors (2016 - $22,000 and $53,000). A balance of $37,000 (December 31, 2016 – $Nil) is included in accounts payable and accrued liabilities.

14. Related party transactions (continued)

Fees of Nil were charged for professional services rendered by a company controlled by a director of the Company (2016 – $17,000 and $47,000).

The key management personnel of the Company are the members of the Board of Directors and certain executive officers. During the three and the six months ended June 30, 2017, total compensation to key management consisted of the following:

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	**2017**	2016
	$	$	**$**	$
Salaries	**137,515**	144,956	**259,469**	320,129
Pension contributions	**2,030**	1,975	**4,009**	3,889
Other benefits	**10,171**	10,173	**20,521**	20,890
Total compensation	**149,716**	157,104	**283,999**	344,908

A balance of $150,334 of key management compensation is included in accounts payable and accrued liabilities as at June 30, 2017 (December 31, 2016 - $145,571).

15. 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 June 30, 2017, the following items are denominated in foreign currencies:

	US	**CDN**
	$	**$**
Cash	**229,101**	**297,305**
Accounts receivable	**533,919**	**692,867**
Accounts payable and accrued liabilities	**(179,192)**	**(232,537)**
Total	**593,828**	**757,635**

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

	US	**CDN**
	$	**$**
Cash	61,842	83,035
Accounts receivable	223,292	299,791
Accounts payable and accrued liabilities	(137,135)	(182,649)
Total	147,999	200,177

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 June 30, 2017, if the US Dollar changes by 10% against the Canadian dollar with all other variables held constant, the impact on before-tax gain or loss for the six months ended June 30, 2017 would have been $76,000 (December 31, 2016 – $20,000).

15. Financial instruments (continued)

Credit concentration

During the three and the six months ended June 30, 2017, three customers accounted for 59% and two customers accounted for 46% respectively (June 30, 2016 – three customers for 69% - three customers for 71%) of revenues from operations.

	Three months ended June 30, 2017		Six months ended June 30, 2017	
	Revenues	**% of total revenues**	**Revenues**	**% of total revenues**
	$	**%**	**$**	**%**
Customer 1	217,530	10	514,403	13
Customer 2	278,250	13	1,276,484	33
Customer 3	780,072	36		
Total	1,275,852	59	1,790,887	46

Two customers accounted for 87% (December 31, 2016 – Four customers for 93%) 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, investments, accounts payables 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, loans and finance lease approximate their carrying amounts due to their short-term maturities. Investments are valued at fair value and classified as Level 1.

As of June 30, 2017 and December 31, 2016, the fair value the convertible debentures approximate its carrying value since there was no significant change in the interest rate from the issuance of the convertible debentures compared to the current interest rate.

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, and on the fair value of investments or liabilities, known as price risks. The Company is exposed to a risk of fair value on the convertible debentures as those financial instruments bear interest at fixed rates.

15. Financial instruments (continued)

Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instruments will fluctuate because of changes in market price (other than those arising from foreign currency risk and interest risk), whether those changes are caused by factors specific to the individual financial instrument or its issuers or factors affecting all similar financial instruments traded in the market. The most significant exposure to other price risk for the Company arises from the investments. If equity prices had increased or decreased by 5% as at June 30, 2017, with all other variables held constant, the Company's investments would have increased or decreased respectively, by approximately $45,000 (December 31, 2016 - $19,000).

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.

The following table summarizes the contractual maturities of financial liabilities as at June 30, 2017:

	Total	6 months or less	6 to 12 months	1-2 year	2-3 year
	$	$	$		$
Accounts payable and accrued liabilities	**1,565,862**	**1,565,862**	**-**	**-**	**-**
Capital lease obligations	**24,112**	**4,521**	**4,521**	**9,042**	**6,028**
Long-term debts	**472,487**	**472,487**	**-**	**-**	**-**
Convertible debentures	**4,225,000**	**-**	**4,225,000**	**-**	**-**
	6,287,461	**2,042,870**	**4,229,521**	**9,042**	**6,028**

16. 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:

	Three months ended June 30,		**Six months ended June 30,**	
	2017	2016	**2017**	2016
	$	$	**$**	$
Revenue from external customers				
Canada	**544,276**	61,478	**709,344**	253,917
United States	**1,625,578**	572,970	**3,080,076**	1,117,946
Europe		25,035		32,154
Asia		74,117	**28,255**	346,435
Mexico	**3,543**	85,390	**51,860**	85,390
	2,173,397	818,990	**3,869,535**	1,835,842

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

	Three months ended June 30,		**Six months ended June 30,**	
	2017	2016	**2017**	2016
	$	$	**$**	$
Sales of goods under long-term contracts	**698,483**	200,497	**1,713,415**	431,209
Services	**1,474,914**	618,493	**2,156,120**	1,404,633
	2,173,397	818,990	**3,869,535**	1,835,842

17. Subsequent events

In July and August 2017, the Company issued 1,261,000 common shares upon the exercise of share purchase warrants for a total proceeds of $570,500.