

**PyroGenesis Canada Inc.**

**Condensed  
Interim Financial Statements**

Three and nine months ended September 30, 2019 and 2018

(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 three, and nine months period ended September 30, 2019

# PyroGenesis Canada Inc.

## Condensed Interim Statements of Financial Position

(unaudited)

	September 30, 2019	December 31, 2018
	\$	\$
	Unaudited	Audited
<b>Assets</b>		
<i>Current assets</i>		
Cash	276,067	644,981
Accounts receivable [note 6]	431,070	631,152
Costs and profits in excess of billings on uncompleted contracts and projects [note 7]	562,176	307,832
Investment tax credits receivable	521,209	633,348
Deposits	368,766	584,646
Prepaid expenses	181,222	66,321
<b>Total current assets</b>	<b>2,340,510</b>	<b>2,868,280</b>
<i>Non-current assets</i>		
Inventories	397,546	382,832
Deposits and investments [note 8]	1,911,683	1,745,607
Property and equipment [note 9]	3,890,378	3,202,882
Right of use Assets	4,248,129	-
Intangible assets	710,724	559,874
<b>Total assets</b>	<b>13,498,970</b>	<b>8,759,475</b>
<b>Liabilities</b>		
<i>Current liabilities</i>		
Accounts payable and accrued liabilities [note 10]	3,319,094	2,357,607
Billings in excess of costs and profits on uncompleted contracts [note 11]	3,893,312	4,352,410
Term loans [note 12]	596,808	247,200
Current portion of long-term debt	-	12,491
Current portion of lease liabilities	240,066	-
Convertible debentures [note 13]	2,800,443	-
<b>Total current liabilities</b>	<b>10,849,723</b>	<b>6,969,708</b>
<i>Non-current liabilities</i>		
Long-term debt	-	268,576
Lease Liabilities	4,215,782	-
Convertible debentures	-	2,527,241
<b>Total liabilities</b>	<b>15,065,505</b>	<b>9,765,525</b>
<b>Shareholders' deficiency [note 14]</b>		
Common shares and warrants	46,311,533	42,863,456
Contributed surplus	6,884,058	6,795,274
Equity portion of convertible debentures [note 13]	401,760	401,760
Deficit	(55,163,886)	(51,066,540)
<b>Total shareholders' deficiency</b>	<b>(1,566,535)</b>	<b>(1,006,050)</b>
<b>Total liabilities and shareholders' deficiency</b>	<b>13,498,970</b>	<b>8,759,475</b>

Going concern disclosure, related party transactions, contingent liabilities, subsequent events [notes 1(b), 18, 20, 23]

Approved on behalf of the Board:

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

[Signed by Michael Blank] Michael Blank

# PyroGenesis Canada Inc.

## Condensed interim Statements of Comprehensive Loss

(unaudited)

	<u>Three months ended</u> <u>September 30,</u>		<u>Nine months ended</u> <u>September 30,</u>	
	2019	2018	2019	2018
	\$	\$	\$	\$
<b>Revenues [note 5]</b>	<b>2,097,437</b>	1,097,726	<b>3,747,649</b>	4,579,680
Cost of sales and services [note 16]	<b>1,150,347</b>	845,575	<b>2,538,538</b>	3,125,225
Gross Profit	<b>947,090</b>	252,151	<b>1,209,111</b>	1,454,455
<b>Expenses (income)</b>				
Selling, general and administrative [note 16]	<b>1,499,952</b>	1,899,542	<b>4,425,834</b>	4,731,004
Research and development	<b>236,535</b>	177,405	<b>544,954</b>	633,920
Net finance costs [note 17]	<b>175,635</b>	934,039	<b>335,668</b>	1,412,051
	<b>1,912,122</b>	3,010,986	<b>5,306,457</b>	6,776,975
<b>Net loss and comprehensive loss</b>	<b>(965,032)</b>	(2,758,835)	<b>(4,097,346)</b>	(5,322,520)
<b>Basic and diluted loss per share</b>	<b>(0.01)</b>	(0.02)	<b>(0.03)</b>	(0.04)
Weighted average number of common shares - basic and diluted	<b>135,562,639</b>	126,452,281	<b>136,394,401</b>	122,388,687

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

# PyroGenesis Canada Inc.

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

(unaudited)

	Number of Class A common shares	Class A common shares and warrants	Contributed Surplus	Equity portion of convertible debentures	Deficit	Total
		\$	\$	\$	\$	\$
<b>Balance - December 31, 2018</b>	<b>133,501,050</b>	<b>42,863,456</b>	<b>6,795,274</b>	<b>401,760</b>	<b>(51,066,540)</b>	<b>(1,006,050)</b>
Cash received on private placement, net of issuance costs [note 14]	6,118,400	3,448,077	-	-	-	3,448,077
Share-based payments	-	-	76,218	-	-	76,218
Below market element of short-term promissory notes	-	-	12,566	-	-	12,566
Net loss and comprehensive loss	-	-	-	-	(4,097,346)	(4,097,346)
<b>Balance – September 30, 2019</b>	<b>139,619,450</b>	<b>46,311,533</b>	<b>6,884,058</b>	<b>401,760</b>	<b>(55,163,886)</b>	<b>(1,566,535)</b>
Balance - December 31, 2017	112,698,081	30,336,865	6,147,638	572,582	(43,200,708)	(6,143,623)
Private placement	8,269,706	5,190,001	-	-	-	5,190,001
Share issue expenses	-	(246,143)	-	-	-	(246,143)
Share issued in settlement of long-term debt	5,285,714	3,327,571	-	-	-	3,327,571
Shares issued upon exercise of warrants	1,797,500	629,125	-	-	-	629,125
Shares issued in settlement of convertible debentures	1,258,333	755,000	-	-	-	755,000
Shares issued upon exercise of stock options	420,000	175,490	(70,490)	-	-	105,000
Share-based payments	-	-	628,888	-	-	628,888
Equity of convertible debentures reimbursed	-	572,582	-	(572,582)	-	-
Issuance of convertible debentures	-	-	-	213,529	-	213,529
Net loss and comprehensive loss	-	-	-	-	(5,322,520)	(5,322,520)
<b>Balance – September 30, 2018</b>	<b>129,729,333</b>	<b>40,765,335</b>	<b>6,681,192</b>	<b>213,529</b>	<b>(48,523,228)</b>	<b>(863,172)</b>

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

# PyroGenesis Canada Inc.

## Condensed Interim Statements of Cash Flows

(unaudited)

	<u>Three months ended</u>		<u>Nine months ended</u>	
	<u>September 30,</u>	<u>September 30,</u>	<u>September 30,</u>	<u>September 30,</u>
	2019	2018	2019	2018
	\$	\$	\$	\$
Cash flows provided by (used in)				
<b>Operating activities</b>				
Net loss	(965,032)	(2,785,835)	(4,097,346)	(5,322,520)
Adjustments for:				
Share-based payments	14,149	203,384	76,218	628,888
Depreciation on property and equipment	44,958	43,331	145,801	113,577
Depreciation of right-of-use assets	111,492	-	326,830	-
Amortization of intangibles assets	5,267	-	14,824	-
Finance costs	246,352	177,289	773,268	502,301
Change in fair value of investments	(70,717)	756,750	(437,600)	909,750
	<b>(613,529)</b>	<b>(1,571,081)</b>	<b>(3,198,005)</b>	<b>(3,168,004)</b>
Net change in non-cash operating working capital items <i>[note 15]</i>	(235,406)	4,700,630	397,016	2,301,175
Interest paid	(95,141)	(82,249)	(451,382)	(233,295)
	<b>(944,076)</b>	<b>3,040,300</b>	<b>(3,252,371)</b>	<b>(1,100,124)</b>
<b>Investing activities</b>				
Variation of inventories	2,007	-	(14,714)	-
Purchase of property and equipment <i>[note 9]</i>	(298,591)	(159,628)	(631,223)	(998,041)
Additions to intangible assets	35,362	(142,953)	(111,305)	(254,781)
Variation of deposits	(225)	-	10,524	-
Disposal of investments	261,000	-	261,000	-
Purchase of investments	-	(1,950,000)	-	(1,950,000)
	<b>(447)</b>	<b>(2,252,581)</b>	<b>(485,718)</b>	<b>(3,202,822)</b>
<b>Financing activities</b>				
Repayment of term loans <i>[note 12]</i>	-	(2,450,000)	-	(2,740,200)
Repayment of R&D loans <i>[note 12]</i>	-	-	(247,200)	-
Repayment of capital lease obligations	-	(3,808)	-	(8,945)
Repayment of lease liabilities	(55,183)	-	(160,902)	-
Repayment of convertible debentures	-	-	-	(3,245,000)
Proceeds from loans	-	2,745,000	329,200	3,145,000
Proceeds from issuance of shares – Private placement <i>[note 14]</i>	-	670,001	3,554,472	5,190,001
Proceeds from issuance of shares upon exercise of warrants	-	-	-	629,125
Proceeds from issuance of shares upon exercise of stock options	-	-	-	105,000
Share issue costs <i>[note 14]</i>	(17,400)	-	(106,395)	(246,143)
Net proceeds from issuance of convertible debentures <i>[note 13]</i>	-	-	-	2,684,298
	<b>(72,583)</b>	<b>961,193</b>	<b>3,369,175</b>	<b>5,513,136</b>
<b>Net increase (decrease) in cash</b>	<b>(1,017,106)</b>	<b>1,748,912</b>	<b>(368,914)</b>	<b>1,210,190</b>
Cash - beginning of period	1,293,173	84,124	644,981	622,846
<b>Cash - end of period</b>	<b>276,067</b>	<b>1,833,036</b>	<b>276,067</b>	<b>1,833,036</b>

# PyroGenesis Canada Inc.

## Condensed Interim Statements of Cash Flows

(unaudited)

	<u>Three months ended</u>		<u>Nine months ended</u>	
	<u>September 30,</u>		<u>September 30,</u>	
	2019	2018	2019	2018
	\$	\$	\$	\$
<b>Supplemental cash flow disclosure</b>				
<b>Non-cash transactions:</b>				
Purchase of property and equipment included in accounts payables	183,200	35,059	232,554	35,059
Interest paid in advance, deducted from the proceeds from loan	17,848	-	17,848	58,633
Purchase of intangibles assets included in accounts payables	19,007	-	54,369	-
Purchase of property and equipment under finance lease obligations	-	-	-	24,008
Issuance of shares in settlement of (IP debt) included in accounts payable	-	1,997,572	-	3,327,571
Issuance of shares in settlement of convertible debentures	-	-	-	755,000
Issuance of shares upon exercise of warrants and stock options	-	-	-	166,511
Issuance of broker warrants	-	-	-	24,929
Equity component of convertible debenture	-	-	-	213,529
Equity component of convertible debenture reimbursed in contributed surplus	-	-	-	572,582

The accompanying notes form an integral part of the condensed interim financial statements

# PyroGenesis Canada Inc.

## Notes to the Condensed Interim Financial Statements

For the periods ended September 30, 2019 and 2018

(unaudited)

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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 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 2015, 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 \$55,163,886 as at September 30, 2019. Furthermore, as at September 30, 2019, the Company's current liabilities and expected level of expenses for the next twelve months exceed cash on hand of \$276,067. 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 realize 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 financial statements of financial position classifications used. Such adjustments could be material.



# PyroGenesis Canada Inc.

## Notes to the Condensed Interim Financial Statements

For the periods ended September 30, 2019 and 2018

(unaudited)

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### 2. Basis of preparation

#### (a) Statement of compliance

These condensed interim financial statements have been prepared in accordance with International Financial Reporting Standard ("IFRS") as issued by the International Accounting Standards Board ("IASB"). These condensed interim financial statements do not include all of the necessary information required for full annual financial statements in accordance with IFRS and should be read in conjunction with the Company's audited financial statements for the year ended December 31, 2018.

These condensed interim financial statements were approved and authorized for issuance by the Board of Directors on November 27, 2019.

#### (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 the investments which are accounted for at fair value.

### 3. Changes in significant accounting policies

Except as described below, the accounting policies applied in these condensed interim financial statements are the same as those applied in the Company's financial statements as at and for the year ended December 31, 2018. The changes in accounting policies are also expected to be reflected in the Company's financial statements as at and for the year ending December 31, 2019.

#### a) IFRS 16 - Leases

In January 2016, the IASB released IFRS 16, Leases, which replaced the previous leases standard, IAS 17, Leases, and related interpretations. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, the customer (lessee) and the supplier (lessor). IFRS 16 eliminates the classification of leases as either operating leases or finance leases, 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.

The Company has adopted IFRS 16 using the modified retrospective method of adoption, with the effect of initially applying this standard recognized at the date of initial application, i.e. January 1, 2019. Accordingly, the cumulative effect of initially applying IFRS 16, if any, has been recognized as an adjustment to the opening balance of retained earnings as at January 1, 2019 and the comparative information presented for 2018 has not been restated, i.e. it is presented, as previously reported, under IAS 17 and related interpretations.

# PyroGenesis Canada Inc.

## Notes to the Condensed Interim Financial Statements

For the periods ended September 30, 2019 and 2018

(unaudited)

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### 3. Changes in significant accounting policies *(continued)*

#### a) IFRS 16 – Leases *(continued)*

##### i. Transition options and practical expedients

The Company has elected to apply the following transition options and practical expedients available under

IFRS 16:

- Lease definition: to grandfather the assessment of which transactions are leases on the date of initial application. Accordingly, the Company applied IFRS 16 only to contracts that were previously identified as leases under IAS 17, Leases, and IFRIC 4, Determining whether an Arrangement contains a Lease, and applied the definition of leases under IFRS 16 only to contracts entered on or after the date of initial application;
- Impairment and onerous leases: to rely on the Company's previous assessment of whether leases are onerous in accordance with IAS 37, Provisions, Contingent Liabilities and Contingent Assets, immediately before the date of initial application as an alternative to performing an impairment review;
- Initial direct costs: to exclude initial direct costs from the measurement of the right-of-use asset at the date of initial application;
- Use of hindsight: to use hindsight, for example, in determining the lease term of contracts that contain options to extend or terminate the lease on the date of initial application; and
- Non-lease components: to not separate lease components from any associated non-lease components.

The Company has elected not to apply the following transition options and practical expedients available under IFRS 16:

- Short-term leases and leases of low-value items recognition exemptions;
- Leases with a short remaining term; and
- Discount rates.

##### ii. Impact of adopting IFRS 16

The most significant impact as a result of adopting IFRS 16 related to the accounting for the Company's operating leases, as the nature of expenses related to most of the Company's leases changed as IFRS 16 replaced the straight-line operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities.

Under IAS 17, the Company classified each of its leases at the inception date as either a finance lease or an operating lease, based on the extent to which risks and rewards of ownership were transferred to the Company. Lease payments related to the Company's operating leases were recognized as rent expense in the income statements on a straight-line basis over the lease term and presented as part of cash flows from operating activities in the statements of cash flows.

At transition, for leases classified as operating leases under IAS 17, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Company's incremental borrowing rate as at January 1, 2019. Right-of-use assets were measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

# PyroGenesis Canada Inc.

## Notes to the Condensed Interim Financial Statements

For the periods ended September 30, 2019 and 2018

(unaudited)

### 3. Changes in significant accounting policies *(continued)*

#### a) IFRS 16 – Leases *(continued)*

The carrying amount of the lease assets and lease liabilities that were classified as finance leases and measured applying IAS 17 immediately before the date of initial application were reclassified to the right-of-use assets and the lease liabilities at the date of initial application.

The following table summarizes the impacts of adopting IFRS 16 on the Company's consolidated statement of financial position as at January 1, 2019:

	As at January 1, 2019
	\$
Lease liabilities	4,593,604
Reversal of deferred lease obligation and accrued liabilities	(41,789)
Assets under finance lease in accordance with IAS 17	49,530
Right-of-use assets	4,601,345

#### iii. Reconciliation of operating lease commitments to lease liabilities recognized

When measuring lease liabilities, the Company discounted lease payments using its incremental borrowing rate as at January 1, 2019. The weighted average incremental borrowing rate applied as at January 1, 2019 was 6.60%.

The lease liabilities as at January 1, 2019 can be reconciled to the operating lease commitments as at December 31, 2018 as follows:

	\$
Operating leases as at December 31, 2018	1,716,656
Extension option reasonably certain to be exercised	1,463,963
Purchase option reasonably certain to be exercised	2,550,000
Exemption for short-term leases	(7,869)
Variable lease based on an index	9,276
	5,732,026
Accretion using the incremental borrowing interest rate as at January 1, 2019	(1,138,423)
	4,593,604
Finance leases and measured applying IAS 17	31,728
Lease liabilities as at January 1, 2019	4,625,332

# PyroGenesis Canada Inc.

## Notes to the Condensed Interim Financial Statements

For the periods ended September 30, 2019 and 2018

(unaudited)

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### 3. Changes in significant accounting policies *(continued)*

a) IFRS 16 – Leases *(continued)*

iv. Significant accounting policies

The detail of the new significant accounting policies in relation to the Company's leases are set out below.

#### Leases

At inception, the Company assesses whether a contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Company recognizes a right-of-use asset and a lease liability at the commencement date of the lease, i.e. the date the underlying asset is available for use.

#### Right-of-use assets

Right-of-use assets are measured at cost, less any accumulated depreciation and accumulated impairment losses, and adjusted for any remeasurement of lease liabilities. Cost of right-of-use assets is comprised of:

- the initial measurement amount of the lease liabilities recognized;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred; and
- an estimate of costs to dismantle and remove the underlying asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease contract.

Right-of-use assets are depreciated on a straight-line basis over the lesser of i) the estimated useful life of the underlying assets when it is reasonably certain that a purchase option will be exercised; or ii) the lease term. Right-of-use assets are assessed for impairment whenever there is an indication that the right-of-use assets may be impaired.

#### Lease liabilities

Lease liabilities are initially measured at the present value of the lease payments that are not paid at the commencement date over the lease term. The present value of the lease payments is determined using the lessee's incremental borrowing rate at the commencement date if the interest rate implicit in the lease is not readily determinable. The incremental borrowing rate is a function of the lessee's incremental borrowing rate, the nature of the underlying asset, the location of the asset, the length of the lease and the currency of the lease contract. Generally, the Company uses the lessee's incremental borrowing rate for the present value. At the commencement date, lease payments generally include fixed payments, less any lease incentives receivable, variable lease payments that depend on an index (e.g. based on inflation index) or a specified rate, and payments of penalties for terminating the lease, if the lease term reflects the lessee exercising the option to terminate the lease. Lease payments also include amounts expected to be paid under residual value guarantees and the exercise price of a purchase option if the Company is reasonably certain to exercise that option.

# PyroGenesis Canada Inc.

## Notes to the Condensed Interim Financial Statements

For the periods ended September 30, 2019 and 2018

(unaudited)

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### 3. Changes in significant accounting policies *(continued)*

#### a) IFRS 16 – Leases *(continued)*

#### iv. Significant accounting policies

Variable lease payments that do not depend on an index or a specified rate are not included in the measurement of lease liabilities but instead are recognized as expenses in the period in which the event or condition that triggers the payment occurs.

After the commencement date, the carrying amount of lease liabilities is increased to reflect the accretion of interest and reduced to reflect lease payments made. In addition, the carrying amount of lease liabilities is remeasured when there is a change in future lease payments arising from a change in an index or specified rate, if there is a modification to the lease terms and conditions, a change in the estimate of the amount expected to be payable under residual value guarantee, or if the Company changes its assessment of whether it will exercise a termination, extension or purchase option. The remeasurement amount of the lease liabilities is recognized as an adjustment to the right-of-use asset, or in the profit and loss statement when the carrying amount of the right-of-use asset is reduced to zero.

Classification and presentation of lease-related expenses

Depreciation charge for right-of-use assets, expenses related to variable lease payments not included in the measurement of lease liabilities and loss (gain) related to lease modifications are allocated in the Company's profit and loss statement based on their function within the Company, while interest expense on lease liabilities is presented within finance costs.

Cash flows classification

Lease payments related to the principal portion of the lease liabilities are classified as cash flows from financing activities while lease payments related to the interest portion of the lease liabilities are classified as interest paid within cash flows from operating activities. Lease incentives received are classified as cash flows from investing activities. Variable lease payments not included in the measurement of lease liabilities are classified as cash flows from operating activities.

Significant judgment in determining the lease term of contracts with extension options and termination options

The Company determines the lease term as the non-cancellable period of the lease, together with any periods covered by an option to extend the lease, if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. The Company applies judgment in assessing whether it is reasonably certain to exercise its options to extend its leases or to not exercise its options to terminate its leases, by considering all facts and circumstances that create an economic incentive to exercise an extension option or not to exercise a termination option. The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the Company.

#### b) Annual Improvements to IFRS Standards 2015–2017 Cycle

In December 2017, the IASB published Annual Improvements to IFRS Standards 2015–2017 Cycle, which includes amendments to the following

# PyroGenesis Canada Inc.

## Notes to the Condensed Interim Financial Statements

For the periods ended September 30, 2019 and 2018

(unaudited)

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### 3. Changes in significant accounting policies *(continued)*

#### b) Annual Improvements to IFRS Standards 2015–2017 Cycle *(continued)*

- Income tax consequences under IAS 12, Income Taxes, of payments on financial instruments classified as equity.
- Borrowing costs eligible for capitalization under IAS 23, Borrowing Costs.

The amendments are effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted. The Company adopted these amendments in its financial statements for the annual period beginning on January 1, 2019. The adoption of these amendments did not have a material impact on the Company's financial statements.

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

The significant judgments, estimates and assumptions applied by the Company's 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, 2018.

### 5. Revenues

During the nine months ended September 30, 2019, the Company's revenues from long-term contracts and sales of goods are generated primarily from PUREVAP™ related sales of \$328,733 (2018 - \$2,249,859), Torch related sales of \$1,932,353 (2018 - \$Nil), and the development and support related to systems supplied to the U.S. Military \$500,946 (2018 - \$825,151).

Refer to note 22 for sales by geographic area and by product line.

#### *Transaction price allocated to remaining performance obligations*

As at September 30, 2019, revenue expected to be recognized in the future related to performance obligations that are unsatisfied (or partially satisfied) at the reporting date is \$6.8MM. Revenue will be recognized as the Company satisfies its performance obligations under long-term contracts, which is expected to occur over the next 3 years.

# PyroGenesis Canada Inc.

## Notes to the Condensed Interim Financial Statements

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(unaudited)

### 6. Accounts receivable

Details of accounts receivable were as follows:

	September 30, 2019	December 31, 2018
	\$	\$
1 – 30 days	62,006	281,984
31 – 60 days	55,106	178,667
61 – 90 days	780	86,567
Greater than 90 days	62,088	16,613
Total trade accounts receivable	179,980	563,831
Other receivables	251,090	67,321
	<b>431,070</b>	<b>631,152</b>

There is no allowance for expected credit losses recorded as at September 30, 2019 and December 31, 2018.

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

As at September 30, 2019, the Company had five uncompleted contracts and projects with total billings of \$858,709 which were less than total costs incurred and had recognized cumulative revenue of \$1,420,885 since those contracts and projects began. This compares with five contracts with total billings of \$1,087,339 which were less than total costs incurred and had recognized cumulative revenue of \$1,395,171 as at December 31, 2018.

Changes in costs and profits in excess of billings on uncompleted contracts during the three and the nine months ended September 30, 2019 are explained by \$26,139 and \$482,633 recognized being transferred to accounts receivable, and \$438,169, \$562,176, resulting from changes in the progress of the projects.

# PyroGenesis Canada Inc.

## Notes to the Condensed Interim Financial Statements

For the periods ended September 30, 2019 and 2018

(unaudited)

### 8. Deposits and investments

	September 30, 2019	December 31, 2018
	\$	\$
Deposits	40,967	51,491
Investments:		
Beauce Gold Fields ("BGF") shares – level 1	117,966	102,579
HPQ Silicon Resources Inc. ("HPQ") shares - level 1	1,752,750	1,281,000
HPQ warrants – level 3	-	310,537
	<b>1,911,683</b>	<b>1,745,607</b>

Investments in HPQ (TSXV: HPQ) are comprised of 18,450,000 common shares (21,350,000 - 2018) and 17,750,000 warrants (17,750,000 - 2018). 1,500,000 warrants have an exercise price of \$0.25 with an expiry date of November 21, 2020 and the remaining 16,250,000 warrants have an exercise price of \$0.17 with an expiry date of August 21, 2021.

Investment in BGF (TSXV: BGF) consists of 1,025,794 of common shares. The 1,025,794 common shares of BGF were received in December 2018 as dividend in kind from a spinoff of HPQ.

16,250,000 common shares of HPQ and 16,250,000 warrants of HPQ were purchased in cash (\$1,950,000) in 2018. 2,500,000 common shares and 2,500,000 warrants were received in 2017 in lieu of payment of services rendered by the Company to HPQ. At the transaction dates, these non-monetary transactions were measured based on the fair value of the common shares and warrants received for a total amount of \$320,000. A gain from initial recognition of the warrants of \$Nil (\$24,017 – 2018) has been deferred off balance sheet until realised.

	("BGF") shares – level 1		HPQ warrants – level 3		("HPQ") shares - level 1	
	Quantity	\$	Quantity	\$	Quantity	\$
Balance, December 31, 2018	1,025,794	102,579	18,750,000	310,537	21,350,000	1,281,000
Additions	-	-	-	-	-	-
Sold	-	-	-	-	(2,900,000)	-
Expired warrants	-	-	(1,000,000)	-	-	-
Change in the fair value	-	15,387	-	(310,537)	-	471,750
Balance, September 30, 2019	1,025,794	117,966	17,750,000	-	18,450,000	1,752,750



# PyroGenesis Canada Inc.

## Notes to the Condensed Interim Financial Statements

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### 9. Property and equipment

	Computer hardware	Computer software	Machinery and equipment	Automobile	Leasehold improvements	Plasma Atomization System	Total
	\$	\$	\$	\$	\$	\$	\$
<b>Cost</b>							
Balance at December 31, 2017	229,708	262,125	1,621,899	21,912	83,215	1,879,455	4,098,314
<b>Additions</b>	58,031	-	-	-	821,297	288,681	1,168,009
Balance at December 31, 2018	287,739	262,125	1,621,899	21,912	904,512	2,168,136	5,266,323
<b>Additions</b>	21,654	-	-	-	844,619	-	866,273
<b>Disposals</b>	-	-	(14,326)	-	-	-	(14,326)
<b>Reclassified to right-of-use assets</b>	(49,530)	-	-	-	-	-	(49,530)
<b>Balance at September 30, 2019</b>	<b>259,863</b>	<b>262,125</b>	<b>1,607,573</b>	<b>21,912</b>	<b>1,749,131</b>	<b>2,168,136</b>	<b>6,068,740</b>
<b>Accumulated depreciation</b>							
Balance at December 31, 2017	202,188	244,967	1,308,952	15,523	79,190	-	1,850,820
<b>Depreciation</b>	24,069	8,578	62,590	1,917	10,046	105,421	212,621
Balance at December 31, 2018	226,257	253,545	1,371,542	17,440	89,236	105,421	2,063,441
<b>Depreciation</b>	19,932	3,217	37,554	1,006	2,787	81,305	145,801
<b>Disposals</b>	-	-	(14,326)	-	-	-	(14,326)
<b>Reclassified to right-of-use assets</b>	(16,554)	-	-	-	-	-	(16,554)
<b>Balance at September 30, 2019</b>	<b>229,635</b>	<b>256,763</b>	<b>1,394,770</b>	<b>18,446</b>	<b>92,022</b>	<b>186,726</b>	<b>2,178,362</b>
<b>Carrying amounts</b>							
Balance at December 31, 2018	61,482	8,580	250,357	4,472	815,276	2,062,715	3,202,882
<b>Balance at September 30, 2019</b>	<b>30,228</b>	<b>5,362</b>	<b>212,803</b>	<b>3,466</b>	<b>1,657,109</b>	<b>1,981,410</b>	<b>3,890,378</b>

### 10. Accounts payable and accrued liabilities

	September 30, 2019	December 31, 2018
	\$	\$
Accounts payable	1,957,400	1,072,257
Accrued liabilities	1,168,957	1,080,128
Accounts payable to the controlling shareholder	192,737	205,222
	<b>3,319,094</b>	<b>2,357,607</b>

# PyroGenesis Canada Inc.

## Notes to the Condensed Interim Financial Statements

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### 11. 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 \$4,079,529, compared to \$3,517,534 as at December 31, 2018.

Payments to date received were \$6,022,841 and \$1,950,000 of deposits on a contract in progress compared to \$5,919,944 in cash and \$1,950,000 of other assets as at December 31, 2018.

Changes in billings in excess of costs and profits on uncompleted contracts during the three and the nine months ended September 30, 2019 are explained by \$2,005,837 and \$3,536,035 recognized as revenue, and a decrease of \$605,193 for the three months and an increase of \$803,923 for the nine months resulting from cash received excluding amounts recognized as revenue.

### 12. Term loans

	Term loans	Promissory notes payable to the controlling shareholder and CEO <sup>1</sup>	2017 SR&ED Tax Credit loan <sup>2</sup>	2018 SR&ED Tax Credit Loan <sup>3</sup>	Total
	\$	\$	\$	\$	\$
Balance, December 31, 2018	-	249,339	247,200	-	496,539
Repayment	-	-	(247,200)	-	(247,200)
Addition	102,634	-	-	214,000	316,634
Accretion	4,879	25,956	-	-	30,835
Balance at September 30, 2019	107,513	275,295	-	214,000	596,808

<sup>1</sup> maturing March 30, 2020 bearing interest rate of 18% (effective interest rate 23%),

<sup>2</sup> matured September 30, 2018 bearing interest rate of 18% (effective interest rate 23%), repaid February 2019.

<sup>3</sup> maturing April 3, 2020 bearing interest rate of 16.68% payable at the issuance.

On May 1, 2019 the Company entered into loan agreements with unrelated parties totaling \$115,200 bearing interest at the annual rate of 8% payable at maturity, on May 1, 2020. The loans are unsecured and are convertible into any private placement until maturity.

On March 25, 2019, the Company entered into a SR&ED tax credit loan of \$214,000 bearing interest at a rate of 16.68% and fees totaling \$56,878 paid at the issuance of the loan. The loan is secured by the investment tax credit receivable and is repayable on April 4, 2020.

# PyroGenesis Canada Inc.

## Notes to the Condensed Interim Financial Statements

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### 13. Convertible debentures

On April 2, 2018, the Company completed a \$3,000,000 non-brokered private placement of 9.5% secured convertible debentures (the "2018 Convertible Debenture"). The 2018 convertible debentures bear interest at the rate of 9.5% per annum, with interest payable in cash on a quarterly basis, and mature on March 29, 2020. Each Debenture is convertible into common shares of the Company at a conversion price of \$0.80 per common share. The 2018 convertible debentures may be redeemed before maturity, in whole at anytime or in part from time to time at the option of the Company. In the event the Company elects to redeem the debentures before the maturity date, the Company shall be required to pay all interest that otherwise would have accrued on the debentures up to the maturity date. The 2018 convertible debentures are secured by a hypothec on the universality of all of the property, rights and assets of the Company, present and future, movable and immovable, corporeal and incorporeal.

The 2018 Convertible Debenture is a compound financial instrument and the total proceeds of the issuance was allocated between a liability for the debenture and an equity component for the conversion feature. The fair value of the debt liability component at inception was determined using estimated future cash flows discounted using a market interest rate of 20%. The residual amount representing the value of the conversion option equity component was classified in the shareholders' (Deficiency) Equity.

In connection with the convertible debenture, the Company paid finder fees in the amount of \$180,000 to the agent. Total transaction costs amounted to \$315,702 and have been allocated between the liability and equity components. The effective interest rate of the liability component is 20.23%.

At the issuance date, the 2018 Convertible Debenture was recorded as follows:

	\$
Debt component, net of transactions cost of \$268,364	2,282,538
Conversion option recognized in equity, net of transaction cost of \$47,338	401,760
<b>Net proceeds</b>	<b>2,684,298</b>

	September 30, 2019	December 31, 2018
	\$	\$
Balance, December 31, 2017	-	3,916,549
Effective interest accretion	-	83,451
Repayment of 2015 Convertible Debenture in cash	-	4,000,000
Repayment of 2015 Convertible Debenture in shares	-	(755,000)
Issuance of 2018 Convertible Debenture	2,527,241	2,282,538
Effective interest accretion	273,202	244,703
<b>Balance, end of period</b>	<b>2,800,443</b>	<b>2,527,241</b>

# PyroGenesis Canada Inc.

## Notes to the Condensed Interim Financial Statements

For the periods ended September 30, 2019 and 2018

(unaudited)

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### 14. Shareholders' deficiency

Common shares and warrants

*Authorized:*

The Company is authorized to issue an unlimited number of Class A common shares without par value.

Issuance of shares

On June 19, 2019, the Company completed a non-brokered private placement and issued 1,000,000 units at a price of \$0.58 per unit, for total gross proceeds of \$580,000. Each unit consists of one common share and one common share purchase warrant of the Company. Each warrant entitles the holder thereof to purchase one common share at a price of \$0.85 until June 19, 2021. Each Unit will be subject to a statutory hold period of four months and one day from the date of closing. In connection with the private placement the Company paid finder's fees in the amount of \$23,200.

On May 28, 2019, the Company completed a non-brokered private placement and issued 2,024,500 units at a price of \$0.58 per unit, for total gross proceeds of \$1,174,210. Each unit consists of one common share and one common share purchase warrant of the Company. Each warrant entitles the holder thereof to purchase one common share at a price of \$0.85 until May 28, 2021. Each Unit will be subject to a statutory hold period of four months and one day from the date of closing. In connection with the private placement the Company paid finder's fees in the amount of \$40,600.

On May 15, 2019, the Company completed a non-brokered private placement and issued 2,996,500 units at a price of \$0.58 per unit, for total gross proceeds of \$1,737,970. Each unit consists of one common share and one common share purchase warrant of the Company. Each warrant entitles the holder thereof to purchase one common share at a price of \$0.85 until May 15, 2021. Each Unit will be subject to a statutory hold period of four months and one day from the date of closing. In connection with the private placement the Company paid finder's fees in the amount of \$42,595.

On January 7, 2019, the Company received an additional subscription and sold an additional aggregate amount of 97,400 units of the Company at a price of \$0.58 per unit for gross proceeds of \$56,492. An amount of \$5,800 from the initial subscriptions of the Private Placement dated December 17, 2018 was received on December 23, 2018 and deposited on January 3, 2019. As a result of the initial subscriptions and subsequent subscription, the Company issued and sold pursuant to the Private Placement dated December 17, 2018 a total of 2,244,367 units for gross proceeds of \$1,301,733. Each unit consists of one common share of the Company and one Common Share purchase warrant. Each warrant entitles the holder thereof to purchase one common share at a price of \$0.85 until December 18, 2020.

# PyroGenesis Canada Inc.

## Notes to the Condensed Interim Financial Statements

For the periods ended September 30, 2019 and 2018

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### 14. Shareholders' deficiency (continued)

The following table sets out the activity in stock options during the nine months ended September 30, 2019:

	Number of options	Weighted average exercise price \$
Balance – December 31, 2018	9,922,000	0.37
Granted	400,000	0.51
Exercised	-	-
Forfeited	-	-
Balance, September 30, 2019	<b>10,322,000</b>	<b>0.37</b>

As at September 30, 2019, 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:

	Number of stock options September 30, 2019	Exercise price per option (1) \$	Expiry date
February 12, 2015	1,965,000	0.30	Feb 12, 2020
September 25, 2016	3,875,000	0.18	Sep 25, 2021
October 20, 2016	32,000	0.18	Oct 20, 2021
October 25, 2016	100,000	0.19	Oct 25, 2021
November 3, 2017	2,600,000	0.58	Nov 3, 2022
February 9, 2018	200,000	0.60	Feb 9, 2023
April 3, 2018	500,000	0.70	Oct 3, 2019
May 10, 2018	250,000	0.52	May 10, 2023
July 3, 2018	300,000	0.51	July 3, 2023
October 29, 2018	100,000	0.52	Oct 29, 2023
September 29, 2019	400,000	0.51	Sep 29, 2024
	<b>10,322,000</b>		

# PyroGenesis Canada Inc.

## Notes to the Condensed Interim Financial Statements

For the periods ended September 30, 2019 and 2018

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### 14. Shareholders' deficiency (continued)

#### Share purchase warrants

The following table reflects the activity in warrants for the Nine months ended September 30, 2019 and the number of issued and outstanding share purchase warrants at December 31, 2018:

	Number of warrants December 31, 2018	Issued	Exercised	Expired	Number of warrants September 30, 2019	Price per warrant	Expiry date
						\$	
Issuance of units – February 9, 2018	4,871,429		-	4,871,429	-	1.25	Aug 9, 2019
Broker warrants – February 9, 2018	88,000		-	88,000	-	1.25	Aug 9, 2019
Issuance of units – April 19, 2018	3,108,333		-	-	3,108,333	0.85	Apr 19, 2020
Issuance of broker warrants – April 19, 2018	74,000		-	-	74,000	0.85	Apr 19, 2020
Issuance of units – April 20, 2018	3,385,715		-	-	3,385,715	0.85	Apr 20, 2020
Issuance of units – September 28, 2018	3,448,276		-	-	3,448,276	0.58	Jan 28, 2021
Issuance of units – October 19, 2018	1,500,750		-	-	1,500,750	0.58	Feb 13, 2021
Issuance of units – December 17, 2018	2,146,967	97,400	-	-	2,244,367	0.85	Dec 18, 2020
Issuance of units – May 15, 2019	-	2,996,500	-	-	2,996,500	0.85	May 15, 2021
Issuance of units – May 28, 2019	-	2,024,500	-	-	2,024,500	0.85	May 28, 2021
Issuance of units – June 19, 2019	-	1,000,000	-	-	1,000,000	0.85	June 19, 2021
	<b>18,623,470</b>	<b>6,118,400</b>	<b>-</b>	<b>4,959,429</b>	<b>19,782,441</b>		

# PyroGenesis Canada Inc.

## Notes to the Condensed Interim Financial Statements

For the periods ended September 30, 2019 and 2018

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### 15. Supplemental disclosure of cash flow information

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

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
	\$	\$	\$	\$
<b>Decrease (increase) in:</b>				
Accounts receivable	87,911	73,645	200,082	18,374
Costs and profits in excess of billings on uncompleted contracts	(438,169)	353,785	(254,344)	53,450
Investment tax credits receivable	(98,703)	(106,188)	112,139	200,193
Deposits	215,880	-	215,880	-
Prepaid expenses	(9,530)	(75,840)	(132,749)	(290,240)
<b>Increase (decrease) in:</b>				
Accounts payable and accrued liabilities	615,237	1,715,794	715,106	1,849,385
Billings in excess of costs and profits on uncompleted contracts	(608,031)	2,742,322	(459,098)	960,525
	<b>(235,405)</b>	<b>4,703,518</b>	<b>397,016</b>	<b>2,791,687</b>

### 16. Other information

Cost of sales and services for the three and nine months ended September 30, 2019 was \$1,150,347 and \$2,538,538 (2018 - \$845,575 and \$3,125,225). Included in cost of sales and services was the amortization of intangible assets expense for the three and nine months ended September 30, 2019 of \$5,267 and \$14,824 (2018 - \$Nil and \$Nil).

Selling, general and administrative costs for the three and nine months ended September 30, 2019 was \$1,499,952 and \$4,425,834 (2018 - \$1,899,542 and \$4,731,004). Included in selling, general and administrative costs was depreciation on property and equipment for the three and nine months ended September 30, 2019 of \$44,958 and \$145,801 (2018 \$43,331 and \$113,577) and depreciation of right of use assets of \$111,492 and \$326,830 (2018 - \$Nil and \$Nil).

Employee benefits totaled \$1,406,043 and \$4,397,824 for the three and the nine months ended September 30, 2019 (2018 - \$1,799,572 and \$4,758,857) and include share-based compensation of \$14,149 and \$76,218 (2018 - \$203,384 and \$628,888).

The Company has been awarded various grants during the three and the nine months periods, which were recognized when they became receivable. The grants, received in these periods, are unconditional and amounted to \$48,897 and \$253,588 respectively (2018 - \$128,675 and \$148,569).

# PyroGenesis Canada Inc.

## Notes to the Condensed Interim Financial Statements

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### 17. Net finance costs

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
	\$	\$	\$	\$
<b>Finance costs</b>				
Interest accretion of convertible debentures	146,237	145,809	486,952	432,232
Interest on lease liabilities	71,255	-	216,726	-
Interest accretion on debts	28,640	18,869	47,271	58,633
Change in the fair value of investments	(70,717)	756,750	(437,600)	909,750
Interest accretion of term loans				
Interest on SR&ED loans	8,924	-	22,040	-
Other interest expenses	(8,704)	12,611	279	15,436
Net finance costs	175,635	934,039	335,668	1,412,051

### 18. Related party transactions

During the three and the nine months ended September 30, 2019, the Company concluded the following transactions with related parties:

Lease payments including rent and property taxes of \$66,740 and \$199,842 were paid to a trust whose beneficiary is the controlling shareholder and CEO (rent and property taxes of \$70,352 and \$211,494 were charged in 2018). A balance due of \$Nil (2018 - \$151,590) is included in accounts payable at September 30, 2019.

An amount of \$Nil (December 31, 2018 – \$240,519) is included in deposit for rent to a trust whose beneficiary is the controlling shareholder and CEO of the Company.

Interest of \$Nil and \$Nil (2018 - \$Nil and \$14,171 for the three and the nine months respectively) was charged on the \$755,000 convertible debentures held by a company under common control of the controlling shareholder and CEO. Accreted interest related to the convertible debenture held by the father of the controlling shareholder and CEO of the Company amounted to \$NIL in 2019 (2018 - \$Nil and \$11,623).

An amount of \$10,213 was owed by a trust whose beneficiary is the controlling shareholder and CEO of the Company (December 31, 2018 – \$10,213) of this amount \$10,213 is included in accounts receivable.

A balance due to the controlling shareholder and CEO of the Company amounted to \$192,737 (December 31, 2018 - \$193,842) for expense reports, interest, salary and vacation payables and is included in accounts payable and accrued liabilities as at September 30, 2019.



# PyroGenesis Canada Inc.

## Notes to the Condensed Interim Financial Statements

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### 18. Related party transactions (continued)

Amounts of \$39,195 (December 31, 2018 - \$7,427), of interest payable and an accretion amount of \$13,239 (December 31, 2018 - \$12,946), were accrued on the loan of \$295,000 from the controlling shareholder and CEO of the Company and are included in accounts payable and accrued liabilities.

The key management personnel of the Company are the members of the Board of Directors and certain officers. Total compensation to key management consisted of the following:

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
	\$	\$	\$	\$
Salaries –officers	136,000	126,000	388,000	391,000
Pension contributions	2,040	2,040	6,120	6,120
Fees – Board of Directors	-	-	-	-
Other benefits – officers	3,374	3,381	10,252	9,902
Total compensation	141,414	131,421	404,372	407,022

A balance of \$99,877 of key management compensation, of the amounts noted above, is included in accounts payable and accrued liabilities as at September 30, 2019 (December 31, 2018 - \$127,748).

### 19. 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 September 30, 2019 the following items are denominated in US dollars:

	September 30, 2019 CDN	December 31, 2018 CDN
	\$	\$
Cash	184,563	4,472
Accounts receivable	123,658	527,761
Accounts payable and accrued liabilities	(353,938)	(240,866)
Total	(45,717)	291,367

# PyroGenesis Canada Inc.

## Notes to the Condensed Interim Financial Statements

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### 19. Financial instruments (continued)

#### Foreign currency risk (continued)

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.

#### Sensitivity analysis

At September 30, 2019, if the US Dollar changes by 10% against the Canadian dollar with all other variables held constant, the impact on pre-tax gain or loss for the year ended September 30, 2019 would have been (\$457), (December 31, 2018 – \$29,000).

#### Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The maximum credit risk to which the Company is exposed as at September 30, 2019 represents the carrying amount of cash, accounts receivable and deposits.

#### Credit concentration

During the three and the nine months ended September 30, 2019, two customers accounted for 40% and 38%, and three customers accounted for 13%, 22% and 29% respectively of revenues from operations.

	Three months ended September 30, 2019		Nine months ended September 30, 2019	
	Revenues	% of total revenues	Revenues	% of total revenues
	\$	%	\$	%
Customer 1	835,142	40	835,142	22
Customer 2	799,976	38	1,097,211	29
Customer 3			500,946	13
Total	1,635,118	78	2,433,299	64

As at September 30, 2019, three customers accounted for 69% (December 31, 2018 – one customer for 85%) of trade accounts receivable with amounts owing to the Company of \$123,845 (2018 - \$478,699), 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.

# PyroGenesis Canada Inc.

## Notes to the Condensed Interim Financial Statements

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### 19. Financial instruments *(continued)*

#### *Fair value of financial instruments*

Financial instruments are comprised of cash, accounts receivable, investments, deposits, accounts payable and accrued liabilities, term loans, long-term debt 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.

Investments in HPQ shares are valued at quoted market prices and are classified as Level 1.

Investments in HPQ warrants were valued using the Black-Scholes pricing model and are classified as Level 3.

Investments in BGF shares are valued based on a valuation technique that estimates a business' value based on a recent round of financing and are classified as Level 1.

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

The fair value of the long-term debt and of the 2018 Convertible Debenture approximates their carrying amounts due to their recent issuance.

#### *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 term loans and convertible debentures as those financial instruments bear interest at fixed rates.

#### *Price risk*

Price risk is the risk that the fair value or future cash flows of a financial instrument 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 the price risk for the Company arises from its investments in shares of public companies quoted on the TSXV Exchange. If equity prices had increased or decreased by 15% as at September 30, 2019, with all other variables held constant, the Company's investments would have increased or decreased respectively, by approximately \$280,000 (December 31, 2018 - \$262,000).

# PyroGenesis Canada Inc.

## Notes to the Condensed Interim Financial Statements

For the periods ended September 30, 2019 and 2018

(unaudited)

### 19. Financial instruments (continued)

#### 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 September 30, 2019:

	Total	6 months or less	6 to 12 months	1- 3 years	Thereafter
	\$	\$	\$	\$	\$
Accounts payable and accrued liabilities	3,319,094	3,319,094	-	-	-
Lease liabilities	5,380,221	262,771	253,331	3,588,586	1,275,533
Term loans – Controlling shareholder and CEO	303,850	303,850	-	-	-
Term loans – Other	121,344	4,608	116,736	-	-
SR&ED loans	214,000	214,000	-	-	-
Convertible debentures	3,142,500	3,142,500	-	-	-
	<b>12,481,009</b>	<b>7,246,823</b>	<b>370,067</b>	<b>3,588,586</b>	<b>1,275,533</b>

### 20. Contingent liabilities

The Company is currently a party to various legal proceedings and a tax authorities' review. If management believes that a loss arising from these matters is probable and can reasonably be estimated, that amount of the loss is recorded. As additional information becomes available, any potential liability related to these matters is assessed and the estimates are revised, if necessary. Based on currently available information, management believes that the ultimate outcome of these matters, individually and in aggregate, will not have a material adverse effect on the Company's financial position or overall trends in results of operations.

The Company had received a government grant in prior years of approximately \$800,000 to assist with the development of a new system of advanced waste treatment systems technology. The grant is potentially repayable at the rate of 3% of any consideration received as a result of the project, for which funding has been received, to a maximum of the actual grant received. This repayment provision will remain in effect until May 30, 2024. The Company abandoned the project in 2011 and accordingly, no amount is expected to be repaid.

# PyroGenesis Canada Inc.

## Notes to the Condensed Interim Financial Statements

For the periods ended September 30, 2019 and 2018

(unaudited)

### 21. Capital management

The Company's objectives in managing capital are:

- a) To ensure sufficient liquidity to support its current operations and execute its business plan; and
- b) To provide adequate return to the shareholders

The Company's primary objectives when managing capital is to ensure the entity continues as a going concern as well as to maintain optimal returns to shareholders and benefits for other stakeholders.

The Company currently funds these requirements from cash flows from operations and with financing arrangements with third parties and shareholders. The Company is not subject to any externally imposed capital requirements.

The management of capital includes common shares, warrants reserve, contributed surplus and equity portion of convertible debentures for a total amount of \$53,597,351 (December 31, 2018 - \$50,060,490) and debt of \$3,637,316, (December 31, 2018 - \$3,055,508). The Company monitors its working capital in order to meet its financial obligations. As at September 30, 2019, the Company's working capital deficiency was \$8,509,213 (December 31, 2018 – deficiency of \$4,101,428).

There were no changes in the Company's approach during the Nine months ended September 30, 2019.

### 22. 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 September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
	\$	\$	\$	\$
Revenue from external customers				
Canada	280,592	755,264	580,353	2,418,577
United States	88,127	138,800	707,987	1,177,306
Europe	863,940	-	1,376,424	-
Mexico	-	202,653	122,890	948,467
Asia	842,022	1,009	934,919	35,330
Australia	22,756	-	25,076	-
	<b>2,097,437</b>	1,097,726	<b>3,747,649</b>	4,579,680

# PyroGenesis Canada Inc.

## Notes to the Condensed Interim Financial Statements

For the periods ended September 30, 2019 and 2018

(unaudited)

### 22. Segment information *(continued)*

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

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
	\$	\$	\$	\$
Sales of goods under long-term contracts	2,019,791	183,819	3,549,989	926,370
Sales of goods in point of time	58,933	-	161,621	-
Other revenues	18,713	913,907	36,039	3,653,310
	2,097,437	1,097,726	3,747,649	4,579,680

### 23. Subsequent events

On October 24, 2019 the Company received final approval from the TSX Venture Exchange ("TSXV") to proceed with a Normal Course Issuer Bid ("NCIB"). Pursuant to the NCIB the Company proposes to purchase, from time to time, over a period of 12 months, up to 6,750,000 (approximately 4.8%) of its common shares issued and outstanding ("Shares"). As of the date of the approval of the NCIB by the TSXV there were 139,619,450 Shares of the Company issued and outstanding. Purchases under the NCIB were scheduled to commence on or about November 1<sup>st</sup>, 2019 and will expire on the earlier of: (i) one year from such commencement; or (ii) the date on which the Company has purchased the maximum number of Shares to be acquired pursuant to the NCIB. All purchases made by the Company will be through Pollitt & Co. Inc. acting on behalf of the Company in accordance with the rules of the TSXV. The actual number of shares which will be purchased and the timing of such purchases, will be determined by the Company, and the price which the Company will pay for the Shares will be the market price at the time of the purchase.

On October 25, 2019, the Company issued 300,000 Units to unrelated parties at a price of \$0.56 per Unit, for gross proceeds of \$168,000. Each Unit consists of one (1) Common Share ("Common Share") and a three-quarters (.75) Common Share purchase warrant ("Warrant") of the Company. Each full Warrant entitles the holder thereof to purchase one (1) Common Share at a price of \$0.75 until the date that is 15 months following the date of closing. Each Unit will be subject to a statutory hold period of four months and one day from the date of closing. In connection with the private placement the Company did not pay any finder's fees.

A total of 647,000 options with expiry dates of February 2020, September 2021 and October 2021, were exercised for net proceeds of \$145,260.