PyroGenesis Canada Inc.
Financial Statements
December 31, 2015 and 2014

PyroGenesis Canada Inc.

December 31, 2015 and 2014

Contents

Management's Responsibility

To the Shareholders of PyroGenesis Canada Inc.

Management is responsible for the preparation and presentation of the accompanying financial statements, including responsibility for significant accounting judgments and estimates in accordance with International Financial Reporting Standards. This responsibility includes selecting appropriate accounting principles and methods, and making decisions affecting the measurement of transactions in which objective judgment is required.

The Board of Directors and Audit Committee are composed primarily of Directors who are neither management nor employees of the Company. The Board of Directors is responsible for overseeing management in the performance of its financial reporting responsibilities, and for approving the financial information included in the annual report. The Board fulfils these responsibilities by reviewing the financial information prepared by management and discussing relevant matters with management and the external auditor. The Audit Committee has the responsibility of meeting with management and the external auditors to discuss the internal controls over the financial reporting process, auditing matters and financial reporting issues. The Committee is also responsible for recommending the appointment of the Company's external auditor.

KPMG LLP, an independent firm of Chartered Professional Accountants, is appointed by the shareholders to audit the financial statements and report directly to them; their report follows. The external auditor has full and free access to, and meets periodically and separately with, both the Audit Committee and management to discuss their audit findings.

April 29, 2016

[Signed by P. Peter Pascali]	*[Signed by Alan Curleigh]*
P. Peter Pascali, Chief Executive Officer	Alan Curleigh, Interim Chief Financial Officer

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of PyroGenesis Canada Inc.

We have audited the accompanying financial statements of PyroGenesis Canada Inc., which comprise the statement of financial position as at December 31, 2015, the statements of comprehensive loss, changes in shareholders' equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of PyroGenesis Canada Inc. as at December 31, 2015, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without modifying our opinion, we draw attention to Note 1(b) in the financial statements, which indicates that PyroGenesis Canada Inc. has incurred operating losses and negative cash flows from operations, has an accumulated deficit and that its operations are dependent on obtaining additional financing. These conditions, along with other matters as set forth in Note 1(b) in the financial statements, indicate the existence of a material uncertainty that may cast significant doubt about PyroGenesis Canada Inc.'s ability to continue as a going concern.

Comparative Information

The financial statements of PyroGenesis Canada Inc. as at and for the year ended December 31, 2014 were audited by another auditor who expressed an unmodified opinion on those financial statements on April 29, 2015.

KPMG LLP*

April 29, 2016

Montréal, Canada

*CPA auditor, CA, public accountancy permit No. A119245

PyroGenesis Canada Inc.

Statements of Financial Position

As at December 31,	2015 $	2014 $
Assets		
Current assets		
Cash	**767,368**	362,183
Accounts receivable *[note 6]*	**359,185**	1,353,547
Sales tax receivable	**222,151**	98,270
Costs and profits in excess of billings on uncompleted contracts *[note 7]*	**72,865**	934,204
Inventories	**994,015**	147,774
Investment tax credits receivable	**608,369**	252,216
Prepaid expenses	**319,233**	291,296
Total current assets	**3,343,186**	3,439,490
Non-current assets		
Deposits and other assets *[note 8]*	**107,530**	57,530
Costs and profits in excess of billings on uncompleted contracts *[note 7]*	**1,760,222**	-
Property and equipment *[note 9]*	**513,771**	644,563
Intangible assets *[note 10]*	**1,396,675**	2,793,749
Total assets	**7,121,384**	6,935,332
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities *[note 11]*	**2,056,881**	1,272,636
Current portion of loans *[note 14]*	**472,166**	-
Billings in excess of costs and profits on uncompleted contracts *[note 13]*	**648,044**	724,652
Total current liabilities	**3,177,091**	1,997,288
Non-current liabilities		
Loans *[note 14]*	**-**	2,059,792
Convertible debentures *[note 15]*	**3,328,722**	-
Total liabilities	**6,505,813**	4,057,080
Shareholders' equity *[note 16]*		
Common shares	**24,044,772**	22,712,406
Warrants reserve	**734,004**	2,669,104
Contributed surplus	**5,313,555**	2,628,305
Equity portion of convertible debentures *[note 15]*	**572,582**	-
Other equity	**24,844**	24,844
Deficit	**(30,074,186)**	(25,156,407)
	615,571	2,878,252
Total liabilities and shareholders' equity	**7,121,384**	6,935,332

Going concern disclosure, related party transactions, contingent liability, commitments, subsequent events *[notes 1,19, 22, 26 and 27]*

Approved on behalf of the Board:

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

[Signed by Alan Curleigh*]* *Alan Curleigh*

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

PyroGenesis Canada Inc.

Statements of Comprehensive Loss

Years ended December 31,	**2015** **$**	2014 $
Revenue ***[note 25]***	**6,242,003**	5,764,896
Cost of sales and services *[note 18]*	**5,948,164**	4,088,815
Gross profit	**293,839**	1,676,081
Expenses		
Selling, general and administrative	**4,648,473**	4,530,083
Research and development	**136,804**	208,539
Finance costs *[note 18]*	**426,341**	216,069
	5,211,618	4,954,691
Net loss and comprehensive loss	**(4,917,779)**	(3,278,610)
Basic and diluted loss per share ***[note 20]***	**(0.06)**	(0.04)
Weighted average number of common shares outstanding - basic and diluted *[note 20]*	**85,339,523**	**75,770,583**

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

PyroGenesis Canada Inc.

Statements of Changes in Shareholders' Equity

Year ended December 31, 2015 and 2014

	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, 2014	**84,796,729**	**22,712,406**	**2,669,104**	**2,628,305**	**-**	**24,844**	**(25,156,407)**	**2,878,252**
Issuance of common shares	**8,835,000**	**1,767,000**	**-**	**-**	**-**	**-**	**-**	**1,767,000**
Shares issued upon exercise of options	**35,000**	**26,618**	**-**	**(19,268)**	**-**	**-**	**-**	**7,350**
Fair value of warrants	**-**	**(375,488)**	**375,488**	**-**	**-**	**-**	**-**	**-**
Expired warrants	**-**	**-**	**(2,376,868)**	**2,376,868**	**-**	**-**	**-**	**-**
Broker warrants	**-**	**(66,280)**	**66,280**	**-**	**-**	**-**	**-**	**-**
Brokers' fees - cash payment	**-**	**(18,200)**	**-**	**-**	**-**	**-**	**-**	**(18,200)**
Equity portion of convertible debentures	**-**	**-**	**-**	**-**	**572,582**	**-**	**-**	**572,582**
Agent fees	**-**	**(9,585)**	**-**	**-**	**-**	**-**	**-**	**(9,585)**
Legal fees	**-**	**8,301**	**-**	**-**	**-**	**-**	**-**	**8,301**
Share-based payments	**-**	**-**	**-**	**327,650**	**-**	**-**	**-**	**327,650**
Comprehensive loss during the year	**-**	**-**	**-**	**-**	**-**	**-**	**(4,917,779)**	**(4,917,779)**
Balance – December 31, 2015	**93,666,729**	**24,044,772**	**734,004**	**5,313,555**	**572,582**	**24,844**	**(30,074,186)**	**615,571**
Balance - December 31, 2013	67,198,649	13,138,554	1,778,999	2,325,386	-	24,844	(21,877,797)	(4,610,014)
Issuance of common shares	10,098,080	4,987,419	-	-	-	-	-	4,987,419
Debt to equity conversion	7,500,000	6,000,000	-	-	-	-	-	6,000,000
Fair value of warrants	-	(742,756)	742,756	-	-	-	-	-
Brokers' fees - cash payment	-	(300,119)	-	-	-	-	-	(300,119)
Broker warrants	-	(147,349)	147,349	-	-	-	-	-
Legal fees	-	(140,025)	-	-	-	-	-	(140,025)
Agent fees	-	(53,318)	-	-	-	-	-	(53,318)
Fees related to debt to equity conversion	-	(30,000)	-	-	-	-	-	(30,000)
Share-based payments	-	-	-	302,919	-	-	-	302,919
Comprehensive loss during the year	-	-	-	-	-	-	(3,278,610)	(3,278,610)
Balance – December 31, 2014	84,796,729	22,712,406	2,669,104	2,628,305	-	24,844	(25,156,407)	2,878,252

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

PyroGenesis Canada Inc.

Statements of Cash Flows

Years ended December 31,	**2015** **$**	2014 $
Cash flows provided by (used in)		
Operating activities		
Net loss	**(4,917,779)**	(3,278,610)
Adjustments for:		
Share-based payments	**327,650**	302,919
Depreciation on property and equipment *[note 9]*	**163,727**	181,016
Finance costs	**426,341**	216,069
Amortization of intangible assets *[note 10]*	**1,397,074**	1,397,074
	(2,602,987)	(1,181,532)
Net change in non-cash operating working capital items *[note 17]*	**(475,712)**	(3,697,418)
Interest paid	**(363,225)**	(80,389)
	(3,441,924)	(4,959,339)
Investing activity		
Purchase of property and equipment *[note 9]*	**(32,935)**	(92,791)
Financing activities		
Repayments of loans	**(832,626)**	(232,479)
Proceeds from issuance of common shares	**1,767,000**	4,987,419
Proceeds from issuance of convertible debentures *[note 15]*	**3,245,000**	-
Proceeds from issuance of common shares upon exercise of option	**7,350**	-
Costs related to issuance of common shares	**(19,484)**	(493,462)
Costs related to debt to equity conversion	**-**	(30,000)
Costs related to issuance of convertible debentures	**(287,196)**	-
	3,880,044	4,231,478
Net increase (decrease) in cash	**405,185**	(820,652)
Cash - beginning of year	**362,183**	1,182,835
Cash - end of year	**767,368**	362,183

Supplemental cash flow disclosure		
Non-cash transactions:		
Accounts receivable settled with other assets instead of cash *[note 13]*	**50,000**	-
Issuance of convertible debentures in partial settlement of balance of sale *[note 14]*	**755,000**	-

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 by the amalgamation of PyroGenesis Canada Inc. and Industrial Growth Income Company (“IGIC”) 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, Montréal, Québec. 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 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 flows from operations, resulting in an accumulated deficit of $30,074,186 as at December 31, 2015. Furthermore, as at December 31, 2015, the Company’s current liabilities and expected level of expense for the next twelve months exceed cash on hand of $767,368. The Company has relied upon external financings to fund its operations in the past, primarily through the issuance of equity, debt, and convertible debentures, as well as from investment tax credits.

The Company’s business plan is dependent upon raising additional funds to finance operations within and beyond the next twelve months. While the Company has been successful in securing financing in the past, raising additional funds is dependent on a number of factors outside the Company’s control, and as such there is no assurance that it will be able to do so in the future. If the Company is unable to obtain sufficient additional financing, it may have to curtail operations and development activities, any of which could harm the business, financial condition and results of operations. Until such financing is secured, these conditions indicate the existence of a material uncertainty that may cast significant doubt about the Company’s ability to continue operating as a going concern and realise its assets and settle its liabilities and commitments in the normal course of business. See Note 27 for details related to financing completed after the end of the fiscal year.

These 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 financial statements, then adjustments would be necessary to the carrying value of assets and liabilities, the reported expenses and the statements of financial position classifications used. The impact on the financial statements could be material.

2. Basis of preparation

(a) Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

These financial statements were approved and authorized for issuance by the Board of Directors on April 29, 2016.

(b) Functional and presentation currency

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

2. Basis of preparation (continued)

(c) Basis of measurement

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

3. Significant accounting policies

(a) Revenue recognition

Revenues relating to long-term contracts are recognized as the work is performed using the percentage-of-completion method. The degree of completion is assessed based on the proportion of total costs incurred to date, compared to total costs anticipated to provide the service and other deliverables required under the entire contract. Provisions are made for the entire amount of expected losses, if any, in the period in which they are first determinable. Estimates are required to determine anticipated costs and revenues on long-term contracts. Anticipated revenues on contracts may include future revenues from claims or unapproved change orders if such additional revenues can be reliably estimated and it is considered probable that they will be recovered.

Revenue related to engineering services, which are not long-term contracts, are recognized as the services are performed.

(b) Foreign currency translation

Foreign currency balances are translated at year-end exchange rates for monetary items and at historical rates for non-monetary items. Revenues and expenses are translated using average exchange rates prevailing at the time of the transaction. Translation gains or losses are included in the determination of comprehensive loss.

(c) Financial instruments

(i) Initial recognition

A financial instrument is any contract that gives rise to a financial asset of one party and a financial liability or equity instrument of another party. Financial assets and financial liabilities are recognized on the statements of financial position when the Company becomes a party to the contractual provisions of the instrument. On initial recognition, all financial instruments must be measured at fair value which is the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable willing parties who are under no constraint to act. Subsequent to initial recognition, the measurement of financial instruments is dependent on the purpose for which the financial assets were acquired or issued, their characteristics and the Company's designation of such instruments.

(ii) Subsequent measurement

Financial assets

The Company's financial assets include cash and accounts receivable classified as loans and receivables and are measured at amortized cost using the effective interest rate method. Interest income calculated using the effective interest rate method is recorded as finance income in the period in which it arises.

Gains and losses are recognized in the statements of comprehensive loss when these assets are impaired or derecognized.

Financial liabilities

The Company's financial liabilities include accounts payable and accrued liabilities, loans and convertible debentures and are classified as other liabilities and measured at amortized cost using the effective interest method. Interest expense is recorded as finance expense in the year.

3. Significant accounting policies (continued)

(d) Impairment of financial assets

At each reporting date, the carrying amounts of financial assets, other than those to be measured at fair value through profit or loss, are assessed to determine whether there is objective or significant evidence of impairment (e.g. a debtor is facing serious financial difficulties or there is a substantial change in the technological, economic, legal or market environment of the debtor). For equity instruments, a significant or prolonged decline in fair value is objective evidence for a possible impairment. The Company has defined criteria for the significance and duration of a decline in fair value.

The amount of the impairment loss on loans and receivables is measured as the difference between the carrying amount of the asset and the present value of estimated future cash flows (excluding expected future credit losses that have not been incurred), discounted at the original effective interest rate of the financial asset. The amount of the impairment loss is recognized in profit or loss. If, in a subsequent reporting year, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed and recognized in profit or loss. The impairment loss on loans and receivables is recorded using an allowance account. The decision to account for credit risk using an allowance account or by directly reducing the receivable depends on the estimated probability of the loss of receivables. When receivables are assessed as uncollectible, the impaired asset is derecognized.

(e) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount presented in the statements of financial position if, and only if, the Company has a legal right to offset the amounts and there is an intention to either settle on a net basis or to realize the assets and settle the liabilities simultaneously.

(f) Inventories

Inventories are composed of specialized high-tech equipment held for resale and are valued at the lower of cost and net realizable value. Cost is determined on an individual basis by the specific identification method. Cost comprises all costs of purchases, costs of conversion and other costs incurred in bringing inventories to their present location and condition. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling costs. The Company did not recognize any write-downs on inventories or reversals of any previous write-downs during the year presented.

(g) Deferred taxes

(i) Current tax

Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the statements of financial position date.

3. Significant accounting policies (continued)

(g) Deferred taxes (continued)

(ii) Deferred tax

Deferred tax is provided using the liability method, providing for temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements. The temporary difference is not provided for if it arises from the initial recognition of goodwill or the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the financial position reporting date and whose implementation is expected over the period in which the deferred tax is realized or recovered. A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be used.

Deferred tax assets and liabilities are presented as non current. Assets and liabilities are offset where the entity has a legally enforceable right to offset current tax assets and liabilities or deferred tax assets and liabilities, and the respective assets and liabilities relate to income taxes levied by the same taxation authority on the same taxable entity or different taxable entities which intend to settle the liabilities and assets on a net basis.

(h) Loss per share

The Company presents basic loss per share data for its common shares. Basic loss per share is computed by dividing net loss by the weighted average number of common shares outstanding during the year. Diluted loss per share is computed similarly to basic earnings per share, except that the weighted average number of shares outstanding is increased to include shares from the assumed exercise of stock options and warrants, if dilutive. The number of additional shares is calculated by assuming that outstanding share options and warrants were exercised and that the proceeds from such exercises were used to acquire common shares at the average market price during the year.

(i) Property and equipment

Property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses if applicable. Cost includes expenditures that are directly attributable to the acquisition of the asset.

When major parts of an item of property and equipment have different useful lives, they are accounted for separately.

Property and equipment are depreciated from the acquisition date.

Depreciation is calculated using the following methods, rates and periods:

Computer hardware	declining balance 45%
Computer software	declining balance 50%
Machinery	declining balance 20%
Automobile	declining balance 30%
Leasehold improvements	straight line over the lesser of 5 years or the term of the lease
Equipment under finance lease	straight line over the lesser of 5 years or the term of the lease

Depreciation methods, useful lives and residual values are reviewed at each financial year-end and adjusted prospectively if appropriate.

Gains and losses on derecognition (on disposal or when it is determined that there are no future economic benefits) of property and equipment are determined by comparing the net disposal proceeds with the carrying amount of property and equipment, and are recognized in the statements of comprehensive loss in the period of derecognition.

3. Significant accounting policies (continued)

(j) Impairment - non-financial assets

The carrying amounts of the Company's non-financial assets are assessed at each reporting date to determine whether there is an indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit ("CGU") is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Assets that cannot be tested individually are grouped into the smallest independent group of assets that generate cash inflows from continuing use. For the purposes of testing non-financial assets for impairment, management has identified one CGU since the Company operates as one segment.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its recoverable amount. Impairment losses are recognized in the statements of comprehensive loss. Impairment losses recognized in respect of the CGU are allocated first to reduce the carrying amount of goodwill allocated to the units and then to reduce the carrying amounts on a pro-rata basis of the other assets in the unit.

Impairment losses recognized in prior periods are assessed at each reporting date as to whether there are any indications that the previously recognized losses may no longer exist or may be decreased. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years.

(k) Government assistance and investment tax credits

Investment tax credits are comprised of scientific research and experimental development tax credits. Government assistance and investment tax credits are recognized when there is reasonable assurance of their recovery and recorded as a reduction of the related expense or cost of the asset acquired, as applicable. Investment tax credits are subject to the customary approvals by the pertinent tax authorities. Adjustments required, if any, are reflected in the year when such assessments are received.

(l) Intangible assets

Acquired intangible assets are measured at cost on initial recognition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses.

Intangible assets with finite lives are amortized over the useful life of the asset and assessed for impairment whenever there is an indication of impairment. The amortization period and method for an intangible asset with a finite life is reviewed at least at each financial year-end. Changes in useful life or consumption are accounted for by changing the amortization period or method and are treated prospectively as changes in accounting estimates. Amortization expense on the intangible assets with finite lives is recognized in the statements of comprehensive loss.

Gains or losses arising from derecognition are recognized in the statements of comprehensive loss at the time that the asset is derecognized.

Intangible assets represent the value of licenses that were acquired from a related party.

The estimated useful life of the licenses acquired is between 5 - 10 years. Amortization is calculated on a straight-line basis over the life of the asset.

3. Significant accounting policies (continued)

(m) Research and development costs

Research costs are charged to comprehensive loss in the year they are incurred, net of related investment tax credits. Development costs are charged to comprehensive loss in the year they are incurred, net of related investment tax credits, unless they meet specific criteria related to technical, market and financial feasibility in order to be recognized as an intangible asset:

• the technical feasibility of completing the intangible asset so that it will be available for use or sale;

• its intention to complete and its ability to use or sell the asset;

• how the asset will generate future economic benefits;

• the availability of resources to complete the asset; and

• the ability to measure reliably the expenditure during development.

Amortization of the asset begins when development is complete. During the period of development, the asset is tested annually for impairment.

(n) Provisions

Provisions are recognized when the Company has a present obligation as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The present value of expected future cash outflows is recognized as a liability and the increase to the liability due to the passage of time is recorded as a finance expense. The unwinding of a discount is recognized as finance cost.

Onerous contracts

A provision for onerous contracts is recognized when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of fulfilling the contract. Before a provision is established, the Company recognizes any impairment loss on the assets associated with that contract.

Contingent liability

A contingent liability is a possible obligation that arises from past events and of which the existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not within the control of the Company, or a present obligation that arises from past events (and therefore exists), but is not recognized because it is not probable that a transfer or use of assets, provision of services or any other transfer of economic benefits will be required to settle the obligation, or the amount of the obligation cannot be estimated reliably.

(o) Leases

Leases where the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. At the commencement of the lease, the leased property is measured at the lower of its fair value and the present value of the minimum lease payments.

Lease payments are apportioned between finance charges and reduction of the outstanding liability to produce a constant periodic rate of interest on the remaining balance of the liability.

Operating lease payments are expensed in the statements of comprehensive loss on a straight-line basis over the lease term.

3. Significant accounting policies (continued)

(p) Compound instruments

The component parts of compound instruments (convertible debentures) issued by the Company are classified separately as financial liabilities and equity, in accordance with the substance of the contractual arrangements and the definitions of a financial liability and equity instrument. The conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is an equity instrument. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible instruments. This amount is recorded as a liability on an amortized cost basis using the effective interest method until extinguished upon conversion, or at the instrument's maturity date. The conversion option classified as equity is determined by deducting the amount of liability component from the fair value of the compound instrument as a whole. This is recognized and included in equity and is not subsequently remeasured. In addition, the conversion option classified as equity will remain in equity until the conversion option is exercised, in which case, the balance recognized as equity will be transferred to common shares.

When the conversion option remains unexercised at the maturity date of the convertible debentures, the balance recognized in equity will be transferred to contributed surplus. No gain or loss is recognized in profit or loss upon conversion or expiration of the conversion option. Transaction costs that relate to the issue of the convertible debentures are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are recognized directly in equity. Transaction costs relating to the liability component are included in the carrying amount of the liability component and are amortized over the lives of the convertible debentures using the effective interest method.

(q) Segment reporting

The Company discloses segmental information based on the internal reports that are regularly reviewed by the Board of Directors in order to assess each segment's performance. In this regard, the Company conducts its business in a single operating segment providing design, development, manufacturing and commercialization of advanced plasma processes.

(r) Employee benefits

Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognized for the amount expected to be paid under the short-term incentive plan if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reasonably.

Share-based payments

The Company applies a fair value based method of accounting to all share-based payments. Employee and director stock options are measured at their fair value of each tranche on the grant date and recognized in its respective vesting period. Non-employee stock options are measured based on the service provided to the reporting date and at their then current fair values. The cost of stock options is presented as share-based payment expense when applicable. On the exercise of stock options, share capital is credited for the consideration received and for the fair value amounts previously credited to contributed surplus. The Company uses the Black-Scholes option-pricing model to estimate the fair value of share-based payments.

3. Significant accounting policies (continued)

(r) Employee benefits (continued)

Deferred profit sharing plan

The Company established a yearly Deferred Profit Sharing Plan ("DPSP") for all eligible employees who have materially and significantly contributed to the prosperity and profits of the Company. The significance of any contribution of any employee to the prosperity and profits of the Company for purposes of eligibility in the DPSP is determined by the Board of Directors of the Company upon such relevant information as the Board, in its sole discretion, may find relevant. All related persons to the Company are excluded from participating in the DPSP.

For all eligible employees, the Company is required to contribute to the DPSP out of the profits of the Company. The amount of the Company's contribution will be such amount which, in the opinion of its Board of Directors, is warranted by the profits and overall financial position of the Company. During the year, the Company contributed $Nil to the DPSP. Obligations for contributions to the DPSP are recognized as an employee benefit expense in the statements of comprehensive loss in the years during which services are rendered by employees.

4. Significant accounting judgments, estimates and assumptions

The preparation of financial statements requires management to make judgments, estimates and assumptions based on currently available information that affect the reported amounts of assets, liabilities and contingent assets and liabilities at the date of the financial statements, and reported amounts of revenues and expenses during the reporting year. Estimates and judgments are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual results could differ from those estimated. By their very nature, these estimates are subject to measurement uncertainty and the effect of any changes in estimates on the financial statements of future years could be material.

In the process of applying the Company's accounting policies, management has made the following judgments, estimates and assumptions which have the most significant effect on the amounts recognized in the financial statements.

Judgments

Going concern

Information about critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements relates to the assessment of the Company's ability to continue as a going concern (Note 1 (b)).

Assumptions and estimates

Information about assumptions and estimation uncertainty with a significant risk of resulting in material adjustments to the carrying amounts of assets and liabilities within the next financial year relate to the following:

Assessment of impairment of non-financial assets

The Company's impairment test for the intangible assets is based on the value in use calculation, which uses a discounted cash flow model. Cash flows are derived from budgets for the next five years. The recovered amount is most sensitive to the discount rate that is used for the discounted cash flow model, as well as expected future cash inflows and the growth rate. Those estimates may differ from actual values, and the differences may be significant and could have a material impact on the Company's financial position and financial performance. Assets are reviewed for an indication of impairment at each statement of financial position date and when there are indicators of impairment. This determination requires significant judgment. Factors which could trigger an impairment review include, but are not limited to, significant negative industry or economic trends or significant declines in expected sales, earnings or cash flows.

4. Significant accounting judgments, estimates and assumptions (continued)

Revenue recognition

The percentage-of-completion method requires the use of estimates to determine the recorded amount of revenues, costs in excess of billings and billings in excess of costs and profits on uncompleted contracts.

The determination of anticipated revenues includes the contractually agreed revenue and may also involve estimates of future revenues from claims and unapproved change orders if such additional revenues can be reliably estimated and it is considered probable that they will be recovered. A change order results from a change to the scope of the work to be performed compared to the original contract that was signed. An example of such contract variation could be a change in the specifications or design of the project, whereby costs related to such variation might be incurred prior to the client's formal contract amendment signature. A claim represents an amount expected to be collected from the client or a third party as reimbursement for costs incurred that are not part of the original contract. In both cases, management's judgments are required in determining the probability that additional revenue will be recovered from these variations and in determining the measurement of the amount to be recovered.

The determination of anticipated costs for completing a contract is based on estimates that can be affected by a variety of factors, including the cost of materials, labour and sub-contractors, as well as potential claims from customers and subcontractors.

As risks and uncertainties are different for each project, the sources of variations between anticipated costs and actual costs incurred will also vary by project. The determination of estimates is based on the Company's business practices as well as its historical experience. Estimates are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimate is revised.

Given this estimation process, it is possible that changes in future conditions could cause a material change in the recognized amount of revenues and costs and profits in excess of billings on uncompleted contracts and accrued expenses.

Inventories

Inventories are specialized high-tech equipment held for resale in a market with a limited number of buyers. Changes in those market environments might impact the ability of the Company to conclude the sale of the inventories and cause a material change in the valuation of the inventory.

Other areas of judgement and uncertainty relate to:

Stock-based payments

The Company uses the fair value method of valuing compensation expense associated with the Company's stock option plan. Estimating fair value requires determining the most appropriate valuation model for a grant of equity instruments, which is dependent on the terms and conditions of the grant. This also requires determining the most appropriate inputs to the valuation model including the expected life of the option, volatility, expected forfeitures and distribution yield. The assumptions and models are discussed in Note 16.

Useful lives of property and equipment

The Company estimates the useful lives of property and equipment based on the period over which the assets are expected to be available for use. The estimated useful lives of property and equipment are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear and legal or other limits on the use of the relevant assets. In addition, the estimation of the useful lives of property and equipment are based on management's experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in the estimates brought about changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of the property and equipment would increase the recorded expenses and decrease the non-current assets. Useful lives, depreciation rates and residual values are reviewed at least annually as required by IFRS.

4. Significant accounting judgments, estimates and assumptions (continued)

Assessment of investment tax credits

The investment tax credits are estimated by management based on quantitative and qualitative analysis and interpretation of various government programmes, related restrictions, limitations, definitions, and eligibility conditions. Management involves its technical staff and external specialists in determining if the expenditures meet the requirements of the different tax credit claims.

Fair value disclosure

The Company discloses the fair value of financial instruments not measured at fair value. The fair value of financial instruments reflects the Company's best estimates of market value based on generally accepted valuation techniques or models and are supported by observable market prices and rates. When such values are not available, the Company uses discounted cash flow analysis from applicable yield curves based on observable market inputs to estimate fair value.

5. Adopted and future accounting policies

(a) New standards, interpretations and amendments adopted on January 1, 2015

On January 1, 2015, the Company adopted the following new or amended IFRS standards and Interpretations of IFRS (“Interpretations”) that are mandatory for application from that date. The adoption of these new or amended IFRS standards and Interpretations did not result in substantial changes to the Company’s accounting policies and had no material effect on the amounts reported for the current or prior financial years.

IAS 24 – Related party disclosures

The amendments to IAS 24, issued in December 2013, clarify that a management entity, or any member of a group of which it is a part, that provides key management services to a reporting entity, or its parent, is a related party of the reporting entity. The amendments also require an entity to disclose amounts incurred for key management personnel services provided by a separate management entity. This replaces the more detailed disclosure by category required for other key management personnel compensation.

(b) Recent accounting pronouncements and amendments not yet effective

The Company has not yet applied the following new or amended IFRS standards and interpretations that have been issued as at December 31, 2015 but are not yet effective. The Company does not plan to early adopt any of these new or amended standards and interpretations.

Disclosure Initiative: Amendments to IAS 1

On December 18, 2014, the IASB issued amendments to IAS 1, *Presentation of Financial Statements* as part of its major initiative to improve presentation and disclosure in financial reports (the “Disclosure Initiative”). The amendments are effective for annual periods beginning on or after January 1, 2016. Early adoption is permitted.

These amendments will not require any significant change to current practice, but should facilitate improved financial statement disclosures.

The Company intends to adopt these amendments in its financial statements for the annual period beginning on January 1, 2016. The extent of the impact of adoption of the amendments has not yet been determined.

5. Adopted and future accounting policies (continued)

IFRS 15, *Revenue from Contracts with Customers*

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

The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized.

The new standard applies to contracts with customers. It does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other IFRS.

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

IFRS 9, *Financial Instruments*

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

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

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

The standard introduces additional changes relating to financial liabilities.

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

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

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

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

5. Adopted and future accounting policies (continued)

IFRS 16, *Leases*

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

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

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

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

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

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

6. Accounts receivable

Details of accounts receivable were as follows:

	2015	2014
	$	$
1 – 30 days	**143,316**	876,898
30 – 60 days	**145,213**	5,778
61 – 90 days	**-**	104,044
Greater than 90 days	**70,656**	366,827
	359,185	1,353,547

Accounts receivable are carried on the statements of financial position, net of an allowance for doubtful accounts. This allowance is established based on the Company's best estimates regarding the ultimate recovery of balances for which collection is uncertain. Uncertainty of ultimate collection may become apparent from various indicators, such as a deterioration of the credit situation of a given client and delay in collection beyond the contractually agreed upon payment terms. Management regularly reviews accounts receivable, monitors past due balances and assesses the appropriateness of the allowance for doubtful accounts. No amounts are impaired at December 31, 2015 and December 31, 2014.

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

As at December 31, 2015, the Company had three contracts in which the billings to date were less than the total costs incurred and has recognized cumulative revenue of $781,757 since those projects began. This compares with cumulative revenue of $1,965,988 from six contracts as at December 31, 2014 (see Note 12).

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

8. Deposits and other assets

	2015	2014
	$	$
Deposits	**57,530**	57,530
Other assets	**50,000**	-
	107,530	57,530

9. Property and equipment

	Computer hardware $	Computer software $	Machinery $	Automobile $	Leasehold improvements $	Equipment $	Total $
Cost:							
Balance at December 31, 2014	**197,520**	**236,998**	**1,553,655**	**21,912**	**67,903**	**14,326**	**2,092,314**
Additions	**5,899**	**10,127**	**1,597**	**-**	**15,312**	**-**	**32,935**
Balance at December 31, 2015	**203,419**	**247,125**	**1,555,252**	**21,912**	**83,215**	**14,326**	**2,125,249**
Accumulated depreciation:							
Balance at December 31, 2014	**161,703**	**204,912**	**1,037,565**	**3,287**	**30,027**	**10,257**	**1,447,751**
Depreciation	**17,445**	**18,575**	**103,378**	**5,587**	**15,877**	**2,865**	**163,727**
Balance at December 31, 2015	**179,148**	**223,487**	**1,140,943**	**8,874**	**45,904**	**13,122**	**1,611,478**
Carrying value	**24,271**	**23,638**	**414,309**	**13,038**	**37,311**	**1,204**	**513,771**

9. Property and equipment (continued)

	Computer hardware $	Computer software $	Machinery $	Automobile $	Leasehold improvements $	Equipment $	Total $
Cost:							
Balance at December 31, 2013	162,747	209,287	1,545,260	-	67,903	14,326	1,999,523
Additions	34,773	27,711	8,395	21,912	-	-	92,791
Balance at December 31, 2014	197,520	236,998	1,553,655	21,912	67,903	14,326	2,092,314
Accumulated depreciation :							
Balance at December 31, 2013	146,624	186,682	909,591	-	16,446	7,392	1,266,735
Depreciation	15,079	18,230	127,974	3,287	13,581	2,865	181,016
Balance at December 31, 2014	161,703	204,912	1,037,565	3,287	30,027	10,257	1,447,751
Carrying value	35,817	32,086	516,090	18,625	37,876	4,069	644,563

10. Intangible assets

Intangible assets consist of the following:

2015	**Licenses $**
Cost:	
Balance at December 31, 2014 and 2015	**8,409,051**
Accumulated amortization:	
Balance at December 31, 2014	**(5,615,302)**
Amortization	**(1,397,074)**
Balance at December 31, 2015	**(7,012,376)**
Carrying value	**1,396,675**

2014	Licenses $
Cost:	
Balance at December 31, 2013 and 2014	8,409,051
Accumulated amortization:	
Balance at December 31, 2013	(4,218,228)
Amortization	(1,397,074)
Balance at December 31, 2014	(5,615,302)
Carrying value	2,793,749

11. Accounts payable and accrued liabilities

	2015 **$**	2014 $
Accounts payable trade	**1,196,851**	531,729
Accrued liabilities	**625,818**	666,021
Accounts payable - shareholder	**161,933**	58,277
Accounts payable - trust beneficially owned by a shareholder	**72,279**	16,609
	2,056,881	1,272,636

12. Joint operation

In 2011, the Company entered into an agreement with another company to share costs, benefits and risks associated with the development of a pilot plasma destruction unit.

Prior to December 14, 2013, the Company had a 50% share in the joint operation.

On December 14, 2013, the Company entered into an agreement, whereby the Company agreed to sell its 50% ownership share in the pilot plasma destruction unit together with related receivables and payables to its joint operation partner for a sum of $750,000, of which $600,000 was payable in 2014 upon the achievement of established milestones.

On August 4, 2015, the Company reached mutual agreement with its former joint operation partner to terminate their Development Use and Commercialization Agreement related to PyroGenesis' SPARC™ Technology. The terms of the mutual agreement included the purchase by the Company of the customer's exclusive rights in a SPARC™ System for $300,000 plus the settlement of the remaining receivable of $546,241 due from the former partner. In addition, the agreements includes an undertaking by the Company not to destroy ozone depleting substances in Canada before July 7, 2017, unless for research and development purposes.

As a result of the termination of this agreement, the Company recorded an asset in inventory of $846,241 for the system, which the Company intends to resell during the course of 2016.

13. Billings in excess of costs and profits on uncompleted contracts

The amount to date of costs incurred and recognized profits less recognized losses for construction projects in progress amounted to $2,865,970 (2014 - $6,267,181).

Payments received on contracts in progress were $3,464,010 (2014 - $6,275,486) in cash and $50,000 of other assets for 2016.

14. Loans

	2015 $	2014 $
Balance of sale - company under common control (i)	**472,166**	1,654,325
Amounts payable to a trust beneficially owned by a shareholder (ii)	**-**	405,467
	472,166	2,059,792
Current portion	**472,166**	-
	-	2,059,792

(i) Balance of sale – company under common control ("Balance of Sale") arose from the purchase of the intangible assets in March 2011. Under the purchase agreement, the consideration was to be payable in monthly instalments of $100,000 from October 1, 2017 with an implicit interest rate of 4.753% per annum.

On May 23, 2014, the Company completed a share for debt transaction by issuing 7,500,000 common shares at a deemed price of $0.80 per common share to settle $6,000,000 of the carrying value of the Balance of Sale, representing the last two-hundred and eighty-five and a half monthly payments owed by the Company under the purchase agreement.

On June 1, 2014, the Company signed an additional amending agreement to resume each instalment for the period starting June 1, 2014 at $40,000 per month, until amounts are paid in full.

On December 1, 2014, the Company signed an additional amending agreement to amend the terms and conditions of the Balance of Sale. Based on the new amendment, the Company was to pay equal monthly instalments of $100,000, starting June 30, 2016 until all such amounts were paid in full. On December 31, 2015, the Company signed an additional amending agreement to postpone the commencement of the instalments until October 1, 2017. However, in the event of any change within the Company that would be considered material by the holder of the Balance of Sale, such as a significant financial development, any and all amounts outstanding will become immediately due and payable on the date of the material change.

Although instalment payments were to begin in June 2016, the Company made instalment payments during 2015 for a total amount of $440,000.

The amount of deferred payments which resulted from the various amendments and contained within the carrying value of the Balance of Sale totaled $472,166 at December 31, 2015 (2014 - $648,416).

The unpaid amount of interest for the twelve months ended December 31, 2015 was added to the Balance of Sale in the amount of $12,841 (2014 - $115,105).

On March 30, 2015, the Company closed a private placement of $4,000,000, principal amount unsecured subordinated convertible debentures of the Company (see Note 15). As part of the private placement, $755,000 of the convertible debentures were purchased from the settlement of $755,000 of the notional value of the Balance of Sale, representing the last twenty monthly payments owed by the Company under the purchase agreement.

(ii) Amounts payable to a trust beneficially owned by a shareholder are unsecured and bear interest at 6%. On December 1, 2014, the Company signed an additional amending agreement to amend the terms and conditions of the payments, whereby the remaining balance of the amounts payable to a trust beneficially owned by a shareholder at December 31, 2014 would be completely deferred until June 30, 2016. The Company was to pay monthly instalments of $75,000 starting June 30, 2016 until all such amounts are paid in full. On March 31, 2015, the Company's management agreed to make these payments early resulting in a payment of $405,467 to a trust beneficially owned by a shareholder.

As the amount payable is now fully paid, there were no amounts of interest for the twelve months ended December 31, 2015 added to the amounts payable to a trust beneficially owned by a shareholder. The respective amount for 2014 was $23,442.

15. Convertible debentures

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

The convertible debentures are convertible into common shares of the Company at any time at the option of the holder at a conversion price of $0.80 per common share, and upon giving effect to such conversion, all accrued and unpaid interest will be paid in full within 60 days. The Company may redeem the 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
- (iii) any interest to be accrued (but not yet accrued as of the redemption date) thereon up until maturity date.

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

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

At the issuance date the convertible debentures are recorded as follows:		
Debt component, net of transaction 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 convertible debentures outstanding at December 31, 2015 have been recorded as follows:

Issuance	$	3,140,222
Effective interest accretion		188,500
Balance, end of period	**$**	**3,328,722**

16. Shareholders' equity

Authorized:

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

Issued during 2015:

(i) On December 11, 2015, the Company completed a private placement in which 8,835,000 units were issued at a price of $0.20 by unit for gross proceeds of $1,767,000 (of which 6,800,000 units or $1,360,000 were issued to related parties). Each unit consisted of one common share and one-half of one common share purchase warrant. Each whole common share purchase warrant ("Warrant Share") is exercisable at the strike price of $0.50 per common share expiring December 11, 2017 (24 months from the closing date).

In accordance with the Black Scholes pricing model, the Company has allocated a value of $0.085 to each purchase warrant for a total value of $375,488 which has been credited to warrants reserve. The following assumptions under the Black Scholes model were used to arrive at this fair value.

Fair value market of the share	$0.24
Risk free interest rate	0.48%
Expected volatility	101%
Expected dividend yield	-
Expected life	24 months

The volatility factor was determined by looking at the historical volatility of the Company and also by looking at the published volatility of other similar companies listed on the TSX Venture.

On closing, the agents received a cash commission totalling $18,200 and 91,000 compensation options. Each compensation option is exercisable for one unit at the issue price of $0.20 for a period of 24 months from the closing of the transaction.

In accordance with the Black Scholes pricing model, the Company has allocated a value of $0.137 to each compensation option based on the value of the underlying purchase warrant for a total value of $12,467 which has been credited to warrants reserve. The following assumptions under the Black Scholes model were used to arrive at this fair value.

Fair value market of the share	$0.24
Risk free interest rate	0.48%
Expected volatility	101%
Expected dividend yield	-
Expected life	24 months

Share issue costs associated with this transaction of $9,585 were paid in cash and recorded as a reduction of equity.

16. Shareholders' equity (continued)

(ii) The Company has a stock option plan authorizing the Board of Directors to grant options to directors, officers, employees and consultants to acquire common shares of the Company at a price computed by reference to the closing market price of the shares of the Company on the business day before the Company notifies the stock exchanges of the grant of the option. The number of shares which may be granted to any one person shall not exceed 5% (2% for consultants) of total share capital over a twelve-month period.

In the year ended December 31, 2015, the following options were granted:

Date of grant	**February 12, 2015**	**June 1, 2015**	**July 15, 2015**
Number of options granted	**2,630,000**	**400,000**	**100,000**
Vesting period from date of grant	**3 years**	**3 years**	**3 years**
Exercise price	**$0.30**	**$0.32**	**$0.36**
Value of each option under the Black Scholes pricing model	**$0.202**	**$0.243**	**$0.273**
Total fair value of options granted	**$531,260**	**$97,200**	**$27,300**
Assumptions under the Black Scholes model:			
Fair value of the market share	$0.275	$0.32	$0.36
Risk free interest rate	0.70%	0.90%	0.68%
Expected volatility	101%	104%	104%
Expected dividend yield	Nil	Nil	Nil
Expected life	60 months	60 months	60 months
Forfeiture rate	8%	8%	8%

The volatility factor for each grant was determined by looking at the historical volatility of the Company and also by looking at the published volatility of other similar companies listed on the TSX Venture.

(iii) On March 30, 2015, the Company concluded a private placement of $4,000,000, principal amount unsecured subordinated convertible debentures of the Company (see Note 15).

On closing, the agent received a cash commission totalling $218,475 and was also granted 270,417 broker warrants. Each broker warrant is exercisable for one common share at a price of $0.60 for a period of 24 months from the closing of the transaction.

In accordance with the Black Scholes pricing model, the Company has allocated a value of $0.199 to each broker warrant based on the value of the underlying purchase warrant for a total value of $53,813 which has been credited to warrants reserve. The following assumptions under the Black Scholes model were used to arrive at this fair value.

Fair value market of the share	$0.44
Risk free interest rate	0.51%
Expected volatility	101%
Expected dividend yield	-
Expected life	24 months

16. Shareholders’ equity (continued)

Transaction costs incurred on the issuance of these convertible debentures consisted of the agent’s commission of $218,475, debt issue costs and legal fees of $68,721 which were paid in cash. Capitalized transaction costs related to the convertible debentures of $287,196 were prorated between equity and liability components, with those recorded against the liability to be amortized using the effective interest method.

Issued during 2014:

(iv) On November 26, 2014, the Company completed a private placement in which 4,285,714 units were issued at a price of $0.35 by unit for gross proceeds of $1,500,000. Each unit consisted of one common share and one-half of one common share purchase warrant. Each whole common share purchase warrant (“Warrant Share”) is exercisable at the strike price of $0.55 per common share expiring November 26, 2016 (24 months from the closing date).

In accordance with the Black Scholes pricing model, the Company has allocated a value of $0.111 to each purchase warrant for a total value of $237,080 which has been credited to warrants reserve. The following assumptions under the Black Scholes model were used to arrive at this fair value.

Fair value market of the share	$0.35
Risk free interest rate	1.00%
Expected volatility	101%
Expected dividend yield	-
Expected life	24 months

The volatility factor was determined by looking at the historical volatility of the Company and also by looking at the published volatility of other similar companies listed on the TSX Venture.

On closing, the agents received a cash commission totalling $105,000, and 300,000 compensation options. Each compensation option is exercisable for one unit at the issue price of $0.35 for a period of 24 months from the closing of the transaction.

In accordance with the Black Scholes pricing model, the Company has allocated a value of $0.184 to each compensation option based on the value of the underlying purchase warrant for a total value of $55,156 which has been credited to warrants reserve. The following assumptions under the Black Scholes model were used to arrive at this fair value.

Fair value market of the share	$0.35
Risk free interest rate	1.00%
Expected volatility	101%
Expected dividend yield	-
Expected life	24 months

Share issue costs associated with this transaction of $24,860 were paid in cash and recorded as a reduction of equity as of December 31, 2014. In January 2015, a reduction of $8,301 of the cost associated with this transaction was recorded after an adjustment was discovered.

16. Shareholders' equity (continued)

(v) On May 22, 2014, the Company completed a private placement in which 5,812,366 units were issued at a price of $0.60 each for gross proceeds of $3,487,419. Each unit consisted of one common share and one-half of one common share purchase warrant. Each whole Common Share purchase warrant ("Warrant Share") is exercisable at the strike price of $0.85 per common share expiring November 22, 2015 (18 months from the closing date). In the event that the volume weighted average price of the common shares on the TSX Venture Exchange is equal to or greater than $1.20 for a period of twenty (20) consecutive trading days, then the Company may accelerate the expiry date of the warrants, in which event the warrants will expire upon the date which is 20 days following the date the Company provides written notice of the accelerated expiry of holders. The common shares issued are subject to a four-month and one-day hold period from the date of issuance.

In accordance with the Black Scholes pricing model, the Company has allocated a value of $0.174 to each purchase warrant for a total value of $505,676 which has been credited to warrants reserve. The following assumptions under the Black Scholes model were used to arrive at this fair value.

Fair value market of the share	$0.61
Risk free interest rate	1.11%
Expected volatility	102%
Expected dividend yield	-
Expected life	18 months

The volatility factor was determined by looking at the historical volatility of the Company and also by looking at the published volatility of other similar companies listed on the TSX Venture.

On closing, the agents received a cash commission totalling $195,119 and 325,198 compensation options. Each compensation option is exercisable for one unit at the issue price of $0.60 for a period of 18 months from the closing of the transaction.

In accordance with the Black Scholes pricing model, the Company has allocated a value of $0.283 to each compensation option based on the value of the underlying purchase warrant for a total value of $92,193 which has been credited to warrants reserve. The following assumptions under the Black Scholes model were used to arrive at this fair value.

Fair value market of the share	$0.61
Risk free interest rate	1.31%
Expected volatility	102%
Expected dividend yield	-
Expected life	18 months

Share issue costs associated with this transaction of $168,483 were paid in cash and recorded as a reduction of equity.

(vi) On May 23, 2014, the Company completed a share for debt transaction by issuing 7,500,000 common shares at a deemed price of $0.80 per common share to settle $6,000,000 of the carrying value of the Balance of Sale (Note 14 (i)). The common shares issued are subject to a four-month and one-day hold period from the date of issuance.

Share issue costs associated with this transaction of $30,000 were paid in cash and recorded as a reduction of equity.

16. Shareholders' equity (continued)

Stock option plan

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

	Options issued	Weighted average exercise price $
Balance – December 31, 2013	**4,514,000**	**$0.27**
Options forfeited	**(598,000)**	**$0.24**
Balance – December 31, 2014	**3,916,000**	**$0.28**
Options granted	**3,130,000**	**$0.30**
Options exercised	**(35,000)**	**$0.21**
Options forfeited	**(605,000)**	**$0.20**
Balance – December 31, 2015	**6,406,000**	**$0.30**

As at December 31, 2015, the outstanding options, as issued under the stock option plan to directors, officers, employees and consultants for the purchases of one common share per option, are as follows:

Outstanding	**Exercisable**	**Weighted averaged exercise price**	**Expiry date**
500,000	500,000	$0.800	July 2016
550,000	550,000	$0.175	September 2017
100,000	100,000	$0.150	September 2017
2,026,000	2,026,000	$0.210	November 2017
100,000	100,000	$0.220	May 2018
2,630,000	584,000	$0.300	February 2020
400,000	40,000	$0.320	June 2020
100,000	10,000	$0.360	July 2020
6,406,000	3,910,000	$0.298	

16. Shareholders' equity (continued)

Warrants

At December 31, 2015, the following exercisable warrants were outstanding:

	Granted and Exercisable	Weighted average exercise price	Expiry date
Balance – December 31, 2013	**8,084,555**	**$0.91**	
Broker warrants issued	**300,000**	**$0.35**	**November 26, 2016**
Warrants issued	**2,142,857**	**$0.55**	**November 26, 2016**
Broker warrants issued	**325,198**	**$0.60**	**November 22, 2015**
Warrants issued	**2,906,183**	**$0.85**	**November 22, 2015**
Balance – December 31, 2014	**13,758,793**	**$0.82**	
Warrants expired	**(4,424,555)**	**$1.20**	**March 29,2015**
Broker warrants issued	**270,417**	**$0.60**	**March 30, 2017**
Warrants expired	**(2,906,183)**	**$0.85**	**November 22, 2015**
Broker warrants expired	**(325,198)**	**$0.60**	**November 22, 2015**
Warrants issued	**4,417,500**	**$0.50**	**December 11, 2017**
Broker warrants issued	**91,000**	**$0.20**	**December 11, 2017**
Warrants expired	**(3,660,000)**	**$0.55**	**December 20, 2015**
Balance – December 31, 2015	**7,221,774**	**$0.51**	

17. Supplemental disclosure of expenses and cash flow information

Net changes in non-cash components of operating working capital	**2015** **$**	2014 $
Decrease (increase) in:		
Accounts receivable	**944,362**	(992,243)
Sales tax receivable	**(123,881)**	(76,461)
Costs and profits in excess of billings on uncompleted contracts	**(898,883)**	(647,801)
Inventories	**(846,241)**	32,668
Investment tax credits receivable	**(356,153)**	(150,278)
Prepaid expenses	**(27,937)**	(236,296)
Increase (decrease) in:		
Accounts payable and accrued liabilities	**909,629**	110,945
Billings in excess of costs and profits on uncompleted contracts	**(76,608)**	(1,737,952)
	(475,712)	(3,697,418)

18. Other information

The aggregate amortization of intangible assets expense for the years ended December 31, 2015 and December 31, 2014 was $1,397,074 and $1,397,074, respectively, and is recorded in cost of sales and services.

Depreciation on property and equipment amounted to $163,727 for the year ended December 31, 2015 (2014 - $181,016) and is expensed to selling, general and administrative. Employee benefits totaled $4,524,265 in the year ended December 31, 2015 (2014 - $3,987,527) and included share-based compensation of $327,650 (2014 - 302,919).

Finance costs include the following items:

	2015 **$**	2014 $
Interest on balance of sale - company under common control	**12,841**	192,627
Interest on amounts payable to a trust beneficially owned by a shareholder	**-**	23,442
Interest on convertible debentures	**225,000**	-
Accretion of convertible debentures	**131,424**	-
Amortisation of financing cost	**57,076**	-
	426,341	216,069

19. Related party transactions

As part of the private placement of December 11, 2015 (see Note 16 (ii)), 6,800,000 units were issued at a price of $0.20 by unit for a gross proceeds of $1,360,000 to shareholders and key management of the Company.

As part of the unsecured and subordinated convertible debentures of $4,000,000 issued March 30, 2015 (see Note 15), 1,000,000 convertible debentures were issued at a price of $0.80 by debenture as settlement of $755,000 of the Balance of Sale due to a shareholder of the Company.

Rent was charged by a trust beneficially owned by a shareholder of the Company in the amount of $181,980 (2014 - $132,855). A balance due of $72,279 (2014 - $16,609) is included in accounts payable and accrued liabilities.

Interest on amounts payable was charged by a trust beneficially owned by a shareholder of the Company in the amount of $Nil (2014 - $23,442). The balance of interest that has not been paid of $Nil (2014 - $125,384) is included in loans. Also, a balance of $Nil (2014 - $7,943) is included in accounts receivable.

Interest on balance of sale was charged by a company under common control in the amount of $12,841 (2014 - $192,627). The balance of interest that has not been paid of $317,319 (2014 - $317,319) is included in loans.

Interest on the convertible debentures was charged by a shareholder of the Company in the amount of $42,516 (2014 - $Nil).

Fees of $47,000 were charged for services rendered by the independent directors who are members of the Company's Board of Directors (2014 - $53,000).

Fees of $116,000 were charged for professional services rendered by a company controlled by a director of the Company (2014 - $121,000).

The key management personnel of the Company are the members of the Board of Directors and certain executive officers. They control 66% of the Company's voting shares. Total compensation to key management consisted of salaries of $620,573 (2014 - $909,607), bonuses of $Nil (2014 - $25,000), pension contributions of $7,924 (2014 - $8,905) and other benefits of $42,036 (2014 - $23,453). A balance of $171,314 (2014 - $164,782) is included in accounts payable and accrued liabilities.

20. Loss per share

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

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

	2015 **$**	2014 $
Net loss for the year	**(4,917,779)**	(3,278,610)
Weighted average number of Class A common shares - basic and diluted	**85,339,523**	75,770,583
Basic and diluted loss per share	**(0.06)**	(0.04)

The diluted weighted average number of shares is calculated assuming the proceeds that arise from the exercise of outstanding and in the money options and warrants that are used to purchase Class A common shares of the Company at their average market price for the year. For the years ended December 31, 2015 and 2014, potential shares from all outstanding options and warrants have been excluded from the calculation of diluted loss per share as their inclusion is considered anti-dilutive in years when a loss is incurred.

21. 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 December 31, 2015, the following items are denominated in foreign currencies:

	US **$**	**CDN** **$**
Cash	**469,851**	**650,274**
Accounts receivable	**180,576**	**241,142**
Accounts payable and accrued liabilities	**(199,176)**	**(265,983)**
Total	**451,251**	**625,433**

21. Financial instruments (continued)

Foreign currency risk (continued)

As at December 31, 2014, the following items are denominated in foreign currencies:

	US $	CDN $
Cash	102,396	118,766
Accounts receivable	433,942	503,312
Accounts payable and accrued liabilities	(53,749)	(61,621)
Total	482,589	560,457

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 December 31, 2015, if the US dollar changes by 10% against the Canadian dollar with all other variables held constant, the impact on after-tax loss for the year would have been $63,000 (2014 - $56,000).

Credit concentration

As at December 31, 2015, four customers accounted for 73% (2014 - three customers for 70%) of revenues from operations and three customers accounted for 74% (2014 - four customers for 76%) of the accounts receivable, representing the Company's major credit risk exposure. Credit concentration is determined based on customers representing 10% or more of total revenues and/or total accounts receivable. The Company believes that there is no unusual exposure associated with the collection of these receivables. The Company manages its credit risk by performing credit assessments of its customers and provides allowances for potentially uncollectible accounts receivable. The Company does not generally require collateral or other security from customers on accounts receivable.

Fair value of financial instruments

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

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

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

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

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

As of December 31, 2015, the fair value of the convertible debenture approximate its carrying value due to the recent issuance of the instrument.

21. Financial instruments (continued)

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument might be adversely affected by a change in interest rates. Changes in market interest rates may have an effect on the cash flows associated with some financial assets and liabilities, known as cash flow risk, and on the fair value of other financial assets or liabilities, known as price risk. The Company is exposed to a risk of fair value on the convertible debentures as those financial instruments bear interest at fixed rates.

Liquidity risk

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

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

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

22. Contingent liability

The Company had received a government grant in prior years of approximately $800,000 to assist it in 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 will be in effect for ten years beginning three years after the completion date of the new system, which was on May 30, 2011.

The Company abandoned the project in fiscal 2011 and, accordingly, no amount is expected to be repaid.

23. 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 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 $30,664,913 (2014 - $28,009,815) and debt of $3,800,888 (2014 - $2,059,792). The Company monitors its working capital in order to meet its financial obligations. As at December 31, 2015, the Company’s working capital was calculated as an excess of $223,625 (2014 - excess of $1,502,802).

There were no changes in the Company’s approach to capital management during fiscal 2015.

24. Income taxes

(a) Reconciliation of income taxes

The impact of differences between the Company’s reported income taxes on operating loss and the expense that would otherwise result from the application of statutory rates is as follows:

	2015	2014
	$	$
Loss before income taxes	**(4,917,779)**	(3,278,610)
Income tax rates	**26.90%**	26.90%
Income tax recovery at the combined basic Federal and Provincial tax rates	**(1,322,883)**	(881,946)
Permanent differences	**248,477**	193,553
Share issue costs	**(82,497)**	(180,448)
Other	**82,778**	-
Unrecognized tax assets	**1,074,125**	868,841
Income tax expense	**-**	-

24. Income taxes (continued)

(b) The tax effects of significant items comprising the Company's net deferred tax assets and liabilities are as follows:

	2015	2014
	$	$
Share issue costs	**210,074**	267,351
Tax cost of property and equipment and intangible assets in excess of carrying value	**1,257,528**	988,483
Loans discounted to fair value	**-**	(14,549)
Non-capital losses carried forward	**3,046,462**	2,681,232
Other	**839,047**	356,469
	5,353,111	4,278,986
Deferred tax assets not recognized	**(5,353,111)**	(4,278,986)
	-	-

(c) Tax carry forwards

The Company has the following non-capital losses available to reduce future income taxes:

Expiry date	**Federal $**	**Provincial $**
2029	**-**	**53,104**
2030	**-**	**2,646,134**
2031	**2,313,597**	**1,889,568**
2032	**3,945,870**	**4,092,314**
2033	**2,047,643**	**2,047,642**
2034	**589,007**	**589,007**
2035	**1,357,733**	**1,357,733**
	10,253,850	**12,675,502**

The Company has a total of $1,664,842 of federal income tax credits that can be carried forward for 20 years and expire from 2028 to 2035.

25. 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 Montréal, Québec. The operation of the Company is located in one geographic area: Canada. The following is a summary of the Company's geographic information:

	2015	2014
	$	$
Revenue from external customers		
Canada	**897,265**	1,286,202
United States	**2,003,770**	2,681,027
Europe	**-**	25,000
Mexico	**586,240**	-
Asia	**2,754,728**	1,772,667
	6,242,003	5,764,896

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

	2015	2014
	$	$
Sale of goods under long-term contracts	**4,525,396**	5,005,859
Services	**1,716,607**	759,037
	6,242,003	5,764,896

26. Commitments

(a) Premises

The Company has entered into long-term leases for premises. The leases end between January 2017 and August 2017. The minimum lease payments due over the next two years are as follows:

	$
2016	**378,930**
2017	**154,525**
	533,455

Included in the above are commitments to a trust beneficially owned by a shareholder of the Company of $173,343 for 2016 and $14,445 for 2017.

26. Commitments (continued)

(b) Automobile

The Company has entered in long-term lease for an automobile. The lease ends in August 2017. The minimum lease payments due over the next two years are as follows:

	$
2016	**31,496**
2017	**18,372**
	49,868

27. Subsequent events

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

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

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

On April 22, 2016, the Company entered into an agreement with Industrial Alliance Securities for a best-efforts private placement offering for an aggregate cash proceeds of $3,000,000 to be raised from the issuance of secured convertible debentures. The convertible debentures will mature 2 years from the date of issuance and will bear interest at a rate of 12% per annum, paid quarterly.