

PyroGenesis Canada Inc.

**Condensed
Interim Financial Statements**

Three and Six months ended June 30, 2015 and 2014

(Unaudited)

UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company discloses that its auditors have not reviewed the unaudited condensed interim financial statements for the period ended June 30, 2015.

PyroGenesis Canada Inc.

Condensed Interim Statements of Financial Position

(Unaudited) As at	June 30, 2015 \$	December 31, 2014 \$
Assets		
<i>Current assets</i>		
Cash	1,208,904	362,183
Accounts receivable [note 4]	662,639	1,353,547
Sales tax receivable	72,832	98,270
Costs and profits in excess of billings on uncompleted contracts [note 5]	1,549,918	934,204
Inventories	199,774	147,774
Investment tax credits receivable	374,501	252,216
Prepaid expenses and deposits [note 6]	304,865	348,826
Total current assets	4,373,433	3,497,020
Non-current assets		
Property and equipment [note 7]	594,501	644,563
Intangible assets [note 8]	2,095,212	2,793,749
Total assets	7,063,146	6,935,332
Liabilities		
<i>Current liabilities</i>		
Accounts payable and accrued liabilities [note 9]	1,151,290	1,266,602
Current portion of obligation under finance lease	3,016	2,964
Billings in excess of costs and profits on uncompleted contracts [note 11]	999,470	724,652
Total current liabilities	2,153,776	1,994,218
Non-current liabilities		
Obligation under finance lease	1,549	3,070
Loans - other [note 12]	632,072	2,059,792
Convertible debenture [note 13]	3,201,332	-
Total liabilities	5,988,729	4,057,080
Shareholders' equity (deficiency) [note 14]		
Common shares	22,693,512	22,712,406
Warrants reserve	1,390,683	2,669,104
Contributed surplus	4,124,403	2,628,305
Equity portion of convertible debenture [note 13]	572,582	-
Other equity	24,844	24,844
Deficit	(27,731,607)	(25,156,407)
	1,074,417	2,878,252
Total liabilities and shareholders' equity (deficiency)	7,063,146	6,935,332

Going concern disclosure, related party transactions, subsequent events [notes 1, 17 and 21]

These condensed interim financial statements were approved and authorized for issuance by the Board of Directors on August 31, 2015.

Approved on behalf of the Board:

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

[Signed by Paul A. Simmons] Paul A. Simmons

The accompanying notes form an integral part of the financial statements

PyroGenesis Canada Inc.

Condensed Interim Statements of Comprehensive Loss

(Unaudited)

	Three months ended June 30		Six months ended June 30	
	2015 \$	2014 \$	2015 \$	2014 \$
Revenue [note 20]	1,533,667	1,958,534	2,650,144	2,764,959
Cost of sales and services [note 16]	1,557,847	1,182,968	2,721,438	2,015,378
Gross margin	(24,180)	775,566	(71,294)	749,581
Expenses				
Selling, general and administrative [note 16]	1,108,072	1,079,641	2,299,588	2,026,559
Research and development [note 16]	26,995	29,099	56,119	128,700
Financing charges [note 16]	137,334	85,045	148,858	177,304
	1,272,401	1,193,785	2,504,565	2,332,563
Loss from operations	(1,296,581)	(418,219)	(2,575,859)	(1,582,982)
Other income	470	1,066	659	1,101
Comprehensive loss	(1,296,111)	(417,153)	(2,575,200)	(1,581,881)
Basic and diluted loss per share [note 18]	(0.02)	(0.01)	(0.03)	(0.02)
Weighted average number of common shares outstanding - basic and diluted [note 18]	84,831,729	72,967,821	84,830,679	70,099,172

The accompanying notes form an integral part of the financial statements

PyroGenesis Canada Inc.

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

(Unaudited)

Six months ended June 30

	Number of Class A common shares	Class A common share capital \$	Warrants reserve \$	Contributed surplus \$	Equity portion of convertible debenture \$	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
Shares issued upon exercise of options	35,000	26,618	-	(19,268)	-	-	-	7,350
Expired warrants [note 14 (ii)]	-	-	(1,332,234)	1,332,234	-	-	-	-
Broker warrants [note 14 (iii)]	-	(53,813)	53,813	-	-	-	-	-
Equity portion of convertible debenture [note 13]	-	-	-	-	572,582	-	-	572,582
Adjusted legal fees [note 14 (iv)]	-	8,301	-	-	-	-	-	8,301
Share-based payments	-	-	-	183,132	-	-	-	183,132
Comprehensive loss during the period	-	-	-	-	-	-	(2,575,200)	(2,575,200)
Balance – June 30, 2015	84,831,729	22,693,512	1,390,683	4,124,403	572,582	24,844	(27,731,607)	1,074,417
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 [note 14 (v)]	5,812,366	3,487,419	-	-	-	-	-	3,487,419
Debt to equity conversion [note 14 (vi)]	7,500,000	6,000,000	-	-	-	-	-	6,000,000
Fair value of warrants [note 14 (v)]	-	(505,676)	505,676	-	-	-	-	-
Brokers' fees - cash payment [note 14 (v)]	-	(195,119)	-	-	-	-	-	(195,119)
Broker warrants [note 14 (v)]	-	(92,193)	92,193	-	-	-	-	-
Additional legal fees [note 14 (v)]	-	(123,416)	-	-	-	-	-	(123,416)
Additional agent fees [note 14 (v)]	-	(48,187)	-	-	-	-	-	(48,187)
Fees related to debt to equity conversion [note 14 (vi)]	-	(30,000)	-	-	-	-	-	(30,000)
Share-based payments	-	-	-	128,500	-	-	-	128,500
Comprehensive loss during the period	-	-	-	-	-	-	(1,581,881)	(1,581,881)
Balance – June 30, 2014	80,511,015	21,631,382	2,376,868	2,453,886	-	24,844	(23,459,678)	3,027,302

The accompanying notes form an integral part of the financial statements

PyroGenesis Canada Inc.

Condensed Interim Statements of Cash Flows

(Unaudited)

	Three months ended June 30		Six months ended June 30	
	2015 \$	2014 \$	2015 \$	2014 \$
Cash flows provided by (used in)				
Operating activities				
Comprehensive loss	(1,296,111)	(417,153)	(2,575,200)	(1,581,881)
Items not requiring an outlay of cash:				
Share-based payments	33,681	78,500	183,132	128,500
Depreciation on property and equipment [note 7]	41,315	42,603	81,401	84,509
Amortization of financing costs	18,787	-	18,787	-
Accretion of convertible debenture	42,323	-	42,323	-
Capitalized interest	-	64,393	-	126,652
Amortization of intangible assets [note 8]	349,269	349,268	698,537	698,537
	(810,736)	117,611	(1,551,020)	(543,683)
Net change in non-cash operating working capital items [note 15]	(635,251)	(2,434,784)	129,814	(2,880,419)
	(1,445,987)	(2,317,173)	(1,421,206)	(3,424,102)
Investing activity				
Purchase of property and equipment [note 7]	(19,132)	(17,549)	(31,339)	(40,496)
Financing activities				
Repayments of obligation under finance lease	(738)	(712)	(1,469)	(1,418)
Repayments of loans – other	(118,777)	(54,519)	(672,720)	(54,519)
Proceeds from issuance of common shares	-	3,487,419	-	3,487,419
Net proceeds from issuance of convertible debenture [note 13]	(48,196)	-	2,957,804	-
Proceeds from issuance of common shares upon exercise of options [note 14]	-	-	7,350	-
Proceeds (costs) related to issuance of common shares [note 14]	-	(366,722)	8,301	(366,722)
Costs related to debt to equity conversion	-	(30,000)	-	(30,000)
	(167,711)	3,035,466	2,299,266	3,034,760
Increase (decrease) in cash	(1,632,830)	700,744	846,721	(429,838)
Cash - beginning of period	2,841,734	52,253	362,183	1,182,835
Cash - end of period	1,208,904	752,997	1,208,904	752,997

Supplemental disclosure of expenses and cash flow information [note 15]

The accompanying notes form an integral part of the financial statements

PyroGenesis Canada Inc.

Notes to Condensed Interim Financial Statements

(Unaudited)

For the six months ended June 30, 2015

1. Nature of operations and going concern disclosure

(a) Nature of operations

PyroGenesis Canada Inc. (the "Company"), incorporated under the laws of the Canada Business Corporations Act, was formed by the amalgamation of PyroGenesis Canada Inc. with Industrial Growth Income Company ("IGIC") on July 11, 2011. The Company owns patents of advanced waste treatment systems technology and designs, develops, manufactures and commercialises advanced plasma processes and systems. The Company is domiciled at 1744 William Street, Suite 200, Montreal, Quebec. The Company is publicly traded on the TSX Venture Exchange under the Symbol "PYR". The Company recently applied to trade on the OTCQB in the USA under the symbol "PYRNF" and anticipates OTC Markets approval in due course. These condensed interim financial statements were approved and authorized for issuance by the Board of Directors on August 31, 2015.

(b) Going concern

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

The Company has incurred recurring losses to date, with \$2,575,200 of losses occurring in 2015 and has an accumulated deficit of \$27,731,607 at June 30, 2015. These conditions indicate the existence of a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern.

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

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

2. Basis of preparation

(a) Statement of compliance:

These condensed interim financial statements of the Company have been prepared in accordance with International Accounting Standard ("IAS") 34 – *Interim Financial Reporting*. These condensed interim financial statements do not include all of the necessary information required for full annual financial statements in accordance with International Financial Reporting Standards ("IFRS") and should be read in conjunction with the Company's audited annual financial statements for the year ended December 31, 2014.

(b) Functional and Presentation Currency

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

(c) Basis of measurement

These condensed interim financial statements have been prepared on the historical cost basis except for the following item in the condensed interim statements of financial position:

Financial instruments classified as fair value through profit or loss and available for sale are measured at fair value.

Notes to Condensed Interim Financial Statements

(Unaudited)

For the six months ended June 30, 2015

3. Significant accounting policies

The accounting policies applied by the Company in these condensed interim financial statements are the same as those applied by the Company in its audited annual financial statements as at and for the year ended December 31, 2014 with the exception of this additional note and the following new accounting pronouncements:

Compound instruments

The component parts of compound instruments (convertible debenture) 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 debenture, 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 debenture 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 debenture using the effective interest method.

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 periods.

IFRS 8 – Operating segments

The amendments to IFRS 8, issued in December 2013, require an entity to disclose the judgments made by management in applying the aggregation criteria for reportable segments.

IAS 16 – Property, plant and equipment

The amendments to IAS 16 and IAS 38, issued in December 2013, clarify how an entity calculates the gross carrying amount and accumulated depreciation when a revaluation is performed.

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.

PyroGenesis Canada Inc.

Notes to Condensed Interim Financial Statements

(Unaudited)

For the six months ended June 30, 2015

3. Significant accounting policies (continued)

(b) Recent accounting pronouncements and amendments not yet effective

The Company has not yet applied the following new or amended IFRS standards and interpretations that have been issued as at June 30, 2015 but are not yet effective. The Company does not plan to early adopt any of these new or amended standards and interpretations.

IAS 1 – Presentation of Financial Statements

In December 2014, the IASB issued amendments to IAS 1, clarifying guidance on the concepts of materiality and aggregation of items in the financial statements, the use and presentation of subtotals in the statements of net income or loss and comprehensive income or loss, and providing additional flexibility in the structure and disclosures of the financial statements to enhance understandability. The amendments to IAS 1 may be applied immediately, and become mandatory for annual periods beginning on or after January 1, 2016. The Company has yet to assess the impact of the amendments to IAS 1 to its financial statements.

IFRS 9 – Financial instruments

In November 2009, the IASB issued IFRS 9, replacing IAS 39, “Financial Instruments: Recognition and Measurement” (“IAS 39”). The first part of IFRS 9 was issued in November 2009 and addresses classification and measurement of financial assets. IFRS 9 has two measurement categories for financial assets: amortized cost and fair value, and replaces the multiple category and measurement models in IAS 39. The approach in IFRS 9 focuses on how an entity manages its financial instruments in the context of its business model, as well as the contractual cash flow characteristics of the financial assets. All equity instruments are measured at fair value. A debt instrument is at amortized cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest. Otherwise it is at fair value through profit or loss. Financial liabilities are measured at either at fair value through profit and loss or amortized cost. After 2009, additional amendments to IFRS 9 include a substantially reformed approach to hedge accounting and requirements to recognize gains or losses that relate to the effect of the Company’s own credit risk in measuring liabilities elected to be measured at fair value outside of profit or loss.

In July 2014, the IASB issued final amendments to IFRS 9. These amendments to IFRS 9 introduce a single, forward-looking ‘expected loss’ impairment model for financial assets which will require more timely recognition of expected credit losses, and a fair value through other comprehensive income category for financial assets that are debt instruments. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted.

IFRS 15 – Revenue from Contracts with Customers

In May 2014, the IASB released IFRS 15, Revenue from contracts with customers, which supersedes IAS 11, Construction Contracts, IAS 18, Revenues, IFRIC 13, Customer Loyalty Programs, IFRIC 15, Agreement for the Construction of Real Estate, IFRIC 18, Transfers of Assets from Customers and SIC-31, Revenue – Barter Transactions Involving Advertising Services. The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

IFRS 15 will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively (for example, service revenue and contract modifications) and improve guidance for multiple-element arrangements. IFRS 15 will be effective for the Company’s fiscal year beginning on January 1, 2018, with earlier application permitted. The Company has not yet assessed the impact of the adoption of this standard on its financial statements.

PyroGenesis Canada Inc.

Notes to Condensed Interim Financial Statements

(Unaudited)

For the six months ended June 30, 2015

4. Accounts receivable

Accounts receivable are carried on the condensed interim 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 June 30, 2015 and December 31, 2014.

Details of accounts receivable were as follows:

	June 30, 2015	December 31, 2014
	\$	\$
1 – 30 days	338,703	876,691
30 – 60 days	-	5,778
61 – 90 days	66	104,044
Greater than 90 days	298,023	366,827
Total	636,792	1,353,340
Other receivable	25,847	207
	662,639	1,353,547

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

The Company had six contracts in which the billings to date were less than the total costs incurred and recognized profits of \$2,574,507 as at June 30, 2015 and \$1,965,988 for six contracts as at December 31, 2014 (see Note 11).

6. Prepaid expenses and deposits

	June 30, 2015	December 31, 2014
	\$	\$
Deposits	57,530	57,530
Prepaid expenses	247,335	291,296
	304,865	348,826

PyroGenesis Canada Inc.

Notes to Condensed Interim Financial Statements

(Unaudited)

For the six months ended June 30, 2015

7. Property and equipment

	Computer hardware \$	Computer software \$	Machinery \$	Automobile \$	Leasehold improvements \$	Equipment under finance lease \$	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	10,128	-	-	15,312	-	31,339
Balance at June 30, 2015	203,419	247,126	1,553,655	21,912	83,215	14,326	2,123,653
Accumulated depreciation :							
Balance at December 31, 2014	(161,703)	(204,912)	(1,037,565)	(3,287)	(30,027)	(10,257)	(1,447,751)
Depreciation	(8,722)	(9,288)	(51,609)	(2,794)	(7,556)	(1,432)	(81,401)
Balance at June 30, 2015	(170,425)	(214,200)	(1,089,174)	(6,081)	(37,583)	(11,689)	(1,529,152)
Net book value	32,994	32,926	464,481	15,831	45,632	2,637	594,501

	Computer hardware \$	Computer software \$	Machinery \$	Automobile \$	Leasehold improvements \$	Equipment under finance lease \$	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)
Net book value	35,817	32,086	516,090	18,625	37,876	4,069	644,563

PyroGenesis Canada Inc.

Notes to Condensed Interim Financial Statements

(Unaudited)

For the six months ended June 30, 2015

8. Intangible assets

Intangible assets consist of the following:

2015	Intellectual property \$
Cost:	
Balance at December 31, 2014 and June 30, 2015	8,409,051
Accumulated amortization:	
Balance at December 31, 2014	(5,615,302)
Amortization	(698,537)
Balance at June 30, 2015	(6,313,839)
Net book value	2,095,212

2014	Intellectual property \$
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)
Net book value	2,793,749

9. Accounts payable and accrued liabilities

	June 30, 2015 \$	December 31, 2014 \$
Accounts payable trade	395,920	525,695
Accrued liabilities	618,224	666,021
Accounts payable - shareholder	120,305	58,277
Accounts payable - trust beneficially owned by a shareholder	16,841	16,609
	1,151,290	1,266,602

PyroGenesis Canada Inc.

Notes to Condensed Interim Financial Statements

(Unaudited)

For the six months ended June 30, 2015

10. 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 and 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.

As of June 30, 2015, \$Nil has been invoiced of the total agreement amount of \$600,000. Revenues of \$Nil (2014 Q2 - \$126,702), cost of sales of \$945 (2014 Q2 - \$126,702) and costs and profits in excess of billings of \$Nil (2014 Q2 - \$126,702) were recorded during the course of the period.

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

The amount to date of costs incurred and recognized profits less recognized losses for construction projects in progress amounted to \$7,436,650 (December 31, 2014 - \$6,267,181).

Payments received on contracts in progress were \$8,186,120 (December 31, 2014 - \$6,275,486).

Amounts billed and not yet received on contracts in progress of \$250,000 (December 31, 2014 - \$716,347) are included in accounts receivable.

12. Loans – other

	June 30, 2015 \$	December 31, 2014 \$
Balance of sale - company under common control (i)	632,072	1,654,325
Amounts payable - trust beneficially owned by a shareholder (ii)	-	405,467
	632,072	2,059,792
Current portion	-	-
	632,072	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 \$40,000 from April 1, 2011 until December 31, 2040 with implicit interest rate of 4.753% per annum. The implicit rate of interest was based on the present value of cash flows having the same value as the intangible assets at the time of sale. The fair value of the intangible assets was based on an external independent valuation.

The face value of the balance of sale at June 30, 2015 was \$673,416 (December 31, 2014 - \$1,708,416). As part of the March 30, 2015 debt to convertible debenture conversion (see Note 13), \$755,000 of the face value of the Balance of Sale was settled.

Various amendments were made during 2014 to defer and reduce monthly installments.

PyroGenesis Canada Inc.

Notes to Condensed Interim Financial Statements

(Unaudited)

For the six months ended June 30, 2015

12. Loans – other (continued)

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 payment owed by the Company under the purchase agreement.

In December 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 will pay equal monthly instalments of \$100,000, starting June 30, 2016 until all such amounts are paid in full. 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, management agreed, prior to this date, to make instalment payments during the six months ended June 30, 2015 for a total amount of \$280,000.

The amount of deferred payments which resulted from the various amendments and contained within the face value of the Balance of Sale total \$608,416 at June 30, 2015 (December 31, 2014 - \$648,416).

The unpaid amount of interest for the three and six month period ended June 30, 2015 was added back to the Balance of Sale in the amount of \$Nil and \$Nil respectively (2014 - \$58,577 and \$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 13). As part the private placement, \$755,000 of the convertible debentures were purchased from the settlement of \$755,000 of the carrying value of the Balance of Sale, representing the last twenty monthly payments owed by the Company under the purchase agreement.

- (ii) Amounts payable - trust beneficially owned by a shareholder is 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 would be completely deferred until June 30, 2016. 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. The loan is now fully paid.

The unpaid amount of interest for the three and six month period ended June 30, 2015 was added to the amounts payable – trust beneficially owned by a shareholder in the amount of \$Nil and \$Nil respectively (2014 - \$5,816 and \$11,547).

13. Convertible debenture

On March 30, 2015, the Company completed a \$4,000,000 unsecured and subordinated convertible debenture issue which matures in 3 years from the date of issuance and bears interest at 7.5% per annum, payable quarterly. The debentures are subject to a statutory hold period of four months and one day from the closing date.

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

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

PyroGenesis Canada Inc.

Notes to Condensed Interim Financial Statements

(Unaudited)

For the six months ended June 30, 2015

13. Convertible debentures (continued)

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

Consistent with IAS 32-Financial Instruments: Presentation, the Company fair valued the liability component using a discounted cash flow model at the current interest rate of 14.61% on March 30, 2015, the closing date of the convertible debenture and 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, the difference of \$572,582, characterized as the debt discount is accreted to expense over the term of the convertible debenture.

As part of the private placement of \$4,000,000, \$755,000 of the convertible debenture were purchased for the settlement of \$755,000 of the face value of the Balance of Sale (Note 12 (i)).

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

The convertible debentures outstanding at June 30, 2015 have been recorded as follows:

New debentures issued	\$	4,000,000
Financing costs		(287,196)
Amortization of financing costs		18,787
Accretion of the liability		42,323
Balance, end of period	\$	3,773,914
<hr/>		
Allocated to:		
Liability	\$	3,201,332
Equity		572,582
	\$	3,773,914

PyroGenesis Canada Inc.

Notes to Condensed Interim Financial Statements

(Unaudited)

For the six months ended June 30, 2015

14. Shareholders' equity

Authorized:

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

Issues during 2015:

- (i) 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.

On June 1, 2015, 400,000 options with an exercise price of \$0.32 per share were granted. These options vest over three years starting on the date of grant. The value of each option under the Black Scholes pricing model is \$0.243 for a total fair value of \$97,200 of which \$12,969 has been expensed and credited to contributed surplus in the current period (2014 - \$Nil). The following assumptions under the Black Scholes model were used to arrive at the fair value:

Fair value market of the share	\$0.32
Risk free interest rate	0.90%
Expected volatility	104%
Expected dividend yield	Nil
Expected life	60 months
Forfeiture rate	9%

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 February 12, 2015, 2,580,000 options with an exercise price of \$0.30 per share were granted. These options vest over three years starting on the date of grant. The value of each option under the Black Scholes pricing model is \$0.202 for a total fair value of \$521,160 of which \$51,487 has been expensed and credited to contributed surplus in the current period (2014 - \$Nil). The following assumptions under the Black Scholes model were used to arrive at the fair value:

Fair value market of the share	\$0.275
Risk free interest rate	0.70%
Expected volatility	101%
Expected dividend yield	Nil
Expected life	60 months
Forfeiture rate	9%

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.

- (ii) On March 29, 2015, the broker warrants issued with the private placement that occur on March 29, 2012 expired.
- (iii) On March 30, 2015, the Company concluded a private placement of \$4,000,000 principal amount unsecured subordinated convertible debentures of the Company ("the Debentures") (see Note 13).

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.

PyroGenesis Canada Inc.

Notes to Condensed Interim Financial Statements

(Unaudited)

For the six months ended June 30, 2015

14. Shareholders' equity (continued)

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	Nil
Expected life	24 months

Transaction costs incurred on the issuance of these debentures consisted of the agent's commission (\$218,475), debt issue costs and legal fees (\$68,721) which were paid in cash. Capitalized transaction costs related to the 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.

Issues 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 each 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	Nil
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	Nil
Expected life	24 months

PyroGenesis Canada Inc.

Notes to Condensed Interim Financial Statements

(Unaudited)

For the six months ended June 30, 2015

14. Shareholders' equity (continued)

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.

- (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 process 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	Nil
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	Nil
Expected life	18 months

Share issue costs associated with this transaction of \$171,603 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. 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.

PyroGenesis Canada Inc.

Notes to Condensed Interim Financial Statements

(Unaudited)

For the six months ended June 30, 2015

14. Shareholders' equity (continued)

Stock Option Plan

The option activity, under the share 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	(193,000)	0.30
Balance – June 30, 2014	4,321,000	0.27
Options forfeited	(405,000)	0.21
Balance – December 31, 2014	3,916,000	0.28
Options granted	2,980,000	0.30
Options exercised	(35,000)	0.21
Options forfeited	(449,000)	0.21
Balance – June 30, 2015	6,412,000	0.29

As at June 30, 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	530,000	0.175	September 2017
206,000	181,000	0.150	September 2017
2,076,000	1,869,600	0.210	November 2017
100,000	100,000	0.220	May 2018
2,580,000	571,500	0.300	February 2020
400,000	40,000	0.320	June 2020
6,412,000	3,792,100	0.294	

PyroGenesis Canada Inc.

Notes to Condensed Interim Financial Statements

(Unaudited)

For the six months ended June 30, 2015

14. Shareholders' equity (continued)

Warrants

At June 30, 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	
Warrants issued	2,906,183	\$0.85	November 22, 2015
Broker warrants issued	325,198	\$0.60	November 22, 2015
Balance – June 30, 2014	11,315,936	\$0.88	
Warrants issued	2,142,857	\$0.55	November 26, 2016
Broker warrants issued	300,000	\$0.35	November 26, 2016
Balance – December 31, 2014	13,758,793	\$0.82	
Expired	(4,424,555)	\$1.20	March 29, 2015
Broker warrants issued	270,417	\$0.60	March 30, 2017
Balance – June 30, 2015	9,604,655	\$0.64	

PyroGenesis Canada Inc.

Notes to Condensed Interim Financial Statements

(Unaudited)

For the six months ended June 30, 2015

15. Supplemental disclosure of expenses and cash flow information

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

	Three months ended June 30		Six months ended June 30	
	2015 \$	2014 \$	2015 \$	2014 \$
Decrease (increase) in:				
Accounts receivable	(240,228)	(121,954)	690,908	(61,802)
Sales tax receivable	6,458	(88,040)	25,438	(101,135)
Costs and profits in excess of billings on uncompleted contracts	(185,502)	(231,793)	(615,714)	(355,887)
Inventories	(52,000)	(4,860)	(52,000)	(10,192)
Investment tax credits receivable	(65,851)	(17,163)	(122,285)	(35,319)
Prepaid expenses and deposits	(90,706)	(370,589)	43,961	(363,688)
Increase (decrease) in:				
Accounts payable and accrued liabilities	(175,256)	(195,444)	(115,312)	(155,638)
Billings in excess of costs and profits on uncompleted contracts	167,834	(1,404,941)	274,818	(1,796,758)
	(635,251)	(2,434,784)	129,814	(2,880,419)

(ii) *Interest and income taxes paid*

	Three months ended June 30		Six months ended June 30	
	2015 \$	2014 \$	2015 \$	2014 \$
Interest paid	76,223	21,766	87,747	50,653
Income taxes	-	-	-	-

(iii) *Disclosure of non-cash transactions*

On March 30, 2015, the Company completed a private placement of which \$755,000 of the convertible debentures were purchased for the settlement of \$755,000 of the face value of the Balance of Sale (see Note 12 (i)).

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 12 (i)).

On May 22, 2014, the Company completed a share offering which included attached warrants with a fair value of \$505,676. This transaction was recorded in equity (Note 14 (v)).

PyroGenesis Canada Inc.

Notes to Condensed Interim Financial Statements

(Unaudited)

For the six months ended June 30, 2015

16. Other information

Cost of sales and services includes the following items:

	Three months ended June 30		Six months ended June 30	
	2015	2014	2015	2014
	\$	\$	\$	\$
Amortization of intangible assets	349,269	349,268	698,537	698,537
Employee compensation	484,832	313,410	927,893	527,157
Investment tax credits	(65,851)	(17,163)	(122,285)	(35,319)
Subcontracting	97,139	8,949	219,295	12,151
Direct materials	568,466	389,446	789,122	552,502
Utilities	34,541	14,788	68,137	54,346
Rent	46,935	46,935	93,871	90,471
Foreign exchange (gain) loss	5,119	10,729	(29,827)	21,609
Other expenses	37,397	66,606	76,695	93,924
	1,557,847	1,182,968	2,721,438	2,015,378

Selling, general and administrative includes the following items:

	Three months ended June 30		Six months ended June 30	
	2015	2014	2015	2014
	\$	\$	\$	\$
Depreciation on property and equipment	41,315	42,602	81,401	84,509
Share-based payments	33,681	78,500	183,132	128,500
Employee compensation	540,346	565,174	975,523	1,084,845
Office and general	90,518	78,886	204,735	159,076
Professional fees	304,279	215,959	658,718	381,394
Travel	68,054	42,138	117,991	81,503
Government grants	(22,653)	(10,000)	(39,724)	(10,000)
Other expenses	52,532	66,382	117,812	116,732
	1,108,072	1,079,641	2,299,588	2,026,559

Research and development includes the following items:

	Three months ended June 30		Six months ended June 30	
	2015	2014	2015	2014
	\$	\$	\$	\$
Employee compensation	27,905	29,978	54,742	152,398
Subcontracting	-	7,610	9,000	16,110
Materials and equipment	2,577	3,101	4,602	18,787
Government grants	(4,236)	(12,316)	(13,824)	(60,383)
Other expenses	749	726	1,599	1,788
	26,995	29,099	56,119	128,700

PyroGenesis Canada Inc.

Notes to Condensed Interim Financial Statements

(Unaudited)

For the six months ended June 30, 2015

16. Other information (continued)

Financing charges include the following items:

	<u>Three months ended June 30</u>		<u>Six months ended June 30</u>	
	2015	2014	2015	2014
	\$	\$	\$	\$
Interest on Balance of Sale –company under common control	1,223	79,229	12,747	165,757
Interest on amounts payable – trust beneficially owned by a shareholder	-	5,816	-	11,547
Interest on convertible debenture	75,000	-	75,000	-
Accretion of convertible debenture	42,323	-	42,323	-
Other expenses	18,788	-	18,788	-
	137,334	85,045	148,858	177,304

PyroGenesis Canada Inc.

Notes to Condensed Interim Financial Statements

(Unaudited)

For the six months ended June 30, 2015

17. Related party transactions

During the three and six month period ended June 30, 2015, rent was charged by a trust beneficially owned by a shareholder of the Company in the amount of \$43,943 and \$87,683 respectively (2014 - \$28,461 and \$55,689). A balance due of \$16,841 (December 31, 2014 - \$16,609) is included in accounts payable and accrued liabilities.

During the three and six month period ended June 30, 2015, interest on amounts payable was charged by a trust beneficially owned by a shareholder of the Company in the amount of \$Nil and \$Nil respectively (2014 - \$5,816 and \$11,547). The balance of interest that has not been paid of \$Nil (December 31, 2014 - \$125,384) is included in loans - other.

During the three and six month period ended June 30, 2015, interest on the balance of sale was charged by a company under common control in the amount of \$1,223 and \$12,747 respectively (2014 - \$79,229 and \$165,757). The balance of interest that has not been paid of \$Nil (December 31, 2014 - \$115,105) is included in loans – other.

During the three and six month period ended June 30, 2015, interest on the convertible debenture was charged by a shareholder of the Company in the amount of \$14,156 for both period respectively.

During the three and six month period ended June 30, 2015, fees of \$21,000 and \$52,000 respectively were charged for services rendered by the independent directors who are members of the Company's Board of Directors (2014 - \$21,000 and \$51,000). A balance of \$10,000 (December 31, 2014 – \$Nil) is included in accounts payable and accrued liabilities.

During the three and six month period ended June 30, 2015, total compensation to key management consisted of salaries of \$139,451 and \$263,561 respectively (2014 - \$206,309 and \$410,432), pension contributions of \$1,975 and \$3,913 respectively (2014 - \$2,307 and \$4,422) and other benefits of \$10,284 and \$20,537 respectively (2014 - \$1,411 and \$2,822). A balance of \$135,477 (December 31, 2014 - \$164,782) is included in accounts payable and accrued liabilities.

18. Loss per share

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

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

	<u>Three months ended June 30</u>		<u>Six months ended June 30</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
	\$	\$	\$	\$
Net loss for the period	(1,296,111)	(417,153)	(2,575,200)	(1,581,881)
Weighted average number of Class A common shares - basic and diluted	84,831,729	72,967,821	84,830,679	70,099,172
Basic and diluted loss per share	(0.02)	(0.01)	(0.03)	(0.02)

The diluted weighted average number of shares is calculated assuming the proceeds that arise from the exercise of outstanding and in the money options and warrants are used to purchase Class A common shares of the Company at their average market price for the period. For the three and six months ended June 30, 2015 and June 30, 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 periods when a loss is incurred.

PyroGenesis Canada Inc.

Notes to Condensed Interim Financial Statements

(Unaudited)

For the six months ended June 30, 2015

19. Financial instruments

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

Foreign currency risk

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

As at June 30, 2015, the following items are denominated in foreign currencies:

	US \$	CDN \$
Cash	246,404	307,364
Accounts receivable	313,703	386,792
Accounts payable and accrued liabilities	(7,092)	(8,834)
Total	553,015	685,322

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 U.S. dollars as a natural hedge against its revenue stream. Therefore the Company does not hold derivative financial instruments to manage the fluctuation of exchange rate risk.

Sensitivity analysis

At June 30, 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 six months ended June 30, 2015 would have been \$68,500 (December 31, 2014 – \$56,000).

PyroGenesis Canada Inc.

Notes to Condensed Interim Financial Statements

(Unaudited)

For the six months ended June 30, 2015

19. Financial instruments (continued)

Credit concentration

As at June 30, 2015, three customers accounted for 93% (2014 – three customers for 83%) of revenues from operations and two customers accounted for 92% (December 31, 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

The classification of financial instruments at their carrying amount and fair values is as follows:

June 30, 2015	Carrying value			Fair value
	Fair value through profit or loss \$	Available for sale \$	Loans and receivables \$	Total \$
Financial assets:				
Cash	1,208,904	-	-	1,208,904
Accounts receivable	-	-	662,639	662,639
Sales tax receivable	-	-	72,832	72,832
Costs and profits in excess of billings on uncompleted contracts	-	-	1,549,918	1,549,918
Investment tax credits receivable	-	-	374,501	374,501
	1,208,904	-	2,659,890	3,868,794

June 30, 2015	Carrying value		Fair value
	Fair value through profit or loss \$	Other liabilities \$	Total \$
Financial liabilities:			
Accounts payable and accrued liabilities	-	1,151,290	1,151,290
Loans - other	-	632,072	610,000
Obligation under finance lease	-	4,565	4,565
Convertible debenture	-	3,201,332	3,425,450
	-	4,989,259	5,191,305

PyroGenesis Canada Inc.

Notes to Condensed Interim Financial Statements

(Unaudited)

For the six months ended June 30, 2015

19. Financial instruments (continued)

December 31, 2014	Carrying value			Fair value
	Fair value through profit or loss	Available for sale	Loans and receivables	Total
	\$	\$	\$	\$
Financial assets:				
Cash	362,183	-	-	362,183
Accounts receivable	-	-	1,353,547	1,353,547
Sales tax receivable	-	-	98,270	98,270
Costs and profits in excess of billings on uncompleted contracts	-	-	934,204	934,204
Investment tax credits receivable	-	-	252,216	252,216
	362,183	-	2,638,237	3,000,420

December 31, 2014	Carrying value		Fair value
	Fair value through profit or loss	Other liabilities	Total
	\$	\$	\$
Financial liabilities:			
Accounts payable and accrued liabilities	-	1,266,602	1,266,602
Loans - other	-	2,059,792	1,969,467
Obligation under finance lease	-	6,034	6,034
	-	3,332,428	3,242,103

The fair value of financial assets traded in active markets that are based on quoted market prices at the close of trading, which consists of cash, are classified as Level 1. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Company is the current bid price.

The fair value of financial assets and liabilities not traded in active markets that are based on unobservable inputs are classified as Level 3. A fair value measurement developed using a present value technique might be categorized within Level 3, depending on the inputs that are significant to the entire measurement and the level of the fair value hierarchy within which those inputs are categorized. If an observable input requires an adjustment using an unobservable input and that adjustment results in a significantly higher or lower fair value measurement, the resulting measurement would be categorized within Level 3 of the fair value hierarchy. The Company's Level 3 liability consists of an interest-free balance of sale - company under common control ("balance of sale") (presented under "loans - other"). The main inputs for the Company's internally developed valuation for its interest-free balance of sale include:

Notes to Condensed Interim Financial Statements

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For the six months ended June 30, 2015

19. Financial instruments (continued)

- principal repayment schedule of the balance of sale;
- the principal (or most advantageous) market for the balance of sale;
- perspective of market participants at the measurement date:
- an estimate of future cash flows to (installments to be paid to) the holder of the balance of sale;
- expectations about possible variations in the amount and timing of the cash flows representing the uncertainty inherent in the timing of future principal repayments on the balance of sale;
- the time value of money, represented by the rate on risk-free monetary assets that have maturity dates or durations that coincide with the period covered by the cash flows and pose neither uncertainty in timing nor risk of default by the Company;
- the price for bearing the uncertainty inherent in timing and repayment of the balance of sale (i.e. a risk premium);
- typical discount rate for credit risk, default risk, liquidity risk and other concerns associated with debt investments.

The valuation technique makes the maximum use of market inputs and relies as little as possible on entity-specific inputs. The valuation technique appropriately considers the availability of data with which to develop inputs that represent the assumptions that market participants would use when pricing the asset and the level of the fair value hierarchy within which the inputs are categorized. Some of the inputs to the valuation model may not be market observable. Credit rating and financial position information for the Company may or may not be published or available. Accordingly, the fair value determination of the balance of sale follows a level 3 valuation methodology.

The Company uses a present value technique to estimate the fair value of the balance of sale. The Company uses expected cash flows (i.e., installment amounts) that are not risk-adjusted and a discount rate adjusted to include the risk premium that market participants require. The discount rate used for this technique is derived from observed rates of return for comparable assets or liabilities that are traded in the market. Accordingly, the most likely installment schedule is discounted at an observed or estimated market rate. Under the valuation method used by the Company, the expected installments are not adjusted for market risk. Rather, the adjustment for that risk is included in the discount rate. Thus, the expected installments are discounted at an expected rate of return of 6.953% (December 31, 2014 – 7.311%) (based on the weighted average interest currently paid by the Company on equivalent debt, adjusted by the Bank of Canada's core CPI index in each of the future years considered in the discounting), yielding a fair value of approximately \$610,000 (December 31, 2014 - \$1,564,000) for the balance of sale.

The aggregate fair value of the balance of sale decreases by approximately \$10,000 (2014 - \$33,000) for every 1% increment in the discount rate and increases by approximately \$10,000 (2014 - \$34,000) for every 1% decrement in the discount rate.

The income approach (i.e., a present value technique that takes into account the future cash flows that a market participant would expect to receive from holding the debt instrument as an asset) was used to determine the fair value of the balance of sale. The market approach (i.e., using prices and other relevant information generated by market transactions involving identical liabilities) and the cost approach (i.e., the amount that would be required currently to extinguish the liability) could not be used to determine the fair value of the balance of sale. The output of a model is always an approximation of a value that cannot be determined with certainty. Accordingly, the valuation technique employed may not fully reflect all factors relevant to the liabilities the Company has.

PyroGenesis Canada Inc.

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For the six months ended June 30, 2015

19. 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 not exposed to an interest rate risk as it has no debt at a variable interest rate.

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 issuances and to generate positive cash flows from operations. The Company manages its liquidity risk by forecasting cash flows from operations and anticipating any investing and financing activities. Management and the Board of Directors are actively involved in the review, planning and approval of significant expenditures and commitments.

The following table summarizes the contractual maturities of financial liabilities as at June 30, 2015:

Financial liability	Total	Less than 1 year	1-3 years	Over 3 years	With no specific maturity
Accounts payable and accrued liabilities	1,151,290	1,151,290	-	-	-
Loans - other	632,072	-	632,072	-	-
Obligation under finance lease	4,565	3,016	1,549	-	-
Convertible debenture	3,201,332	-	3,201,332	-	-
	4,989,259	1,154,306	3,834,953	-	-

The following table summarizes the contractual maturities of financial liabilities as at December 31, 2014:

Financial liability	Total	Less than 1 year	1-3 years	Over 3 years	With no specific maturity
Accounts payable and accrued liabilities	1,266,602	1,266,602	-	-	-
Loans - other	2,059,792	-	2,059,792	-	-
Obligation under finance lease	6,034	2,964	3,070	-	-
	3,332,428	1,269,566	2,062,862	-	-

PyroGenesis Canada Inc.

Notes to Condensed Interim Financial Statements

(Unaudited)

For the six months ended June 30, 2015

20. Segment information

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

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

	<u>Three months ended June 30</u>		<u>Six months ended June 30</u>	
	2015	2014	2015	2014
	\$	\$	\$	\$
Revenue from external customers				
Canada	893,928	416,097	1,402,583	590,172
United States	73,541	800,654	300,332	1,424,644
Europe	-	16,048	-	24,219
Mexico	5,028	-	5,028	-
Asia	561,170	725,735	942,201	725,924
	1,553,667	1,958,534	2,650,144	2,764,959

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

	<u>Three months ended June 30</u>		<u>Six months ended June 30</u>	
	2015	2014	2015	2014
	\$	\$	\$	\$
Product line				
Torch & Environmental	1,062,742	1,645,404	1,873,726	2,393,678
Engineering services & After Sales	470,925	313,130	776,418	371,281
	1,533,667	1,958,534	2,650,144	2,764,959

21. Subsequent events

On July 20, 2015 the Company announced the receipt of a \$340,000 down payment for the supply of its first commercial DROSRITE™ Furnace System to a North American automobile parts manufacturer, which will be delivered by year-end.

On July 27, 2015 the Company announced that it commenced the application process for a US listing of its common shares on the OTCQB.

On July 28, 2015 the Company announced that it has received USD \$917,532 as final payment for the second, and final, phase of the \$2.2 million plasma torch contract previously announced to an Asian company. The payment represents the final payment for the last phase of the Contract which is expected to be completed within eight (8) months.

On July 28, 2015 the Company has approved the grant of 100,000 incentive stock options to a new officer of the Company with an exercise price of \$0.36 per share and are exercisable over a period of five years.

PyroGenesis Canada Inc.

Notes to Condensed Interim Financial Statements

(Unaudited)

For the six months ended June 30, 2015

21. Subsequent events (continued)

On August 4, 2015, the Company announced that it has reached mutual agreement with a customer, who wishes to remain unnamed, to terminate their Development Use and Commercialization Agreement related to PyroGenesis' SPARC™ Technology. The terms of the mutual agreement include the purchase by the Company of the customer's exclusive rights in a Pilot System for \$300,000, and 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, Management expects to record an impairment charge of between \$500k and \$600k in Q3, 2015 on its costs and profits in excess of billings on uncompleted contracts.

22. Reclassification of comparative amounts

Certain comparative figures have been reclassified to conform with current period presentation.

In the Statement of Cash Flows, capitalized interest is now presented in the operating activities section and so, the Company had to adjust the repayments of loans – other in the financing activities section.

In Note 16, for the cost of sales and services breakdown, foreign exchange (gain) loss amounts are now presented and so, the Company had to adjust the other expenses amount where foreign exchange gain was initially recorded in the 2014 financial statements.

In Note 17, for the total compensation to key management paragraph, other benefits are now presented and so, the Company had to adjust the salaries amount where other benefits were initially recorded in the 2014 financial statements.