PyroGenesis Canada Inc.

Condensed
Interim Financial Statements

Three months ended March 31, 2018 and 2017

(Unaudited)
CONDENSED INTERIM FINANCIAL STATEMENTS
The accompanying unaudited financial statements of Pyrogenesis Canada Inc. have been prepared by and are the responsibility of the Company’s management. The Company’s independent auditor has not performed a review of these unaudited condensed interim financial statements for the period ended March 31, 2018.
## PyroGenesis Canada Inc.
### Condensed Interim Statements of Financial Position
(unaudited)

<table>
<thead>
<tr>
<th></th>
<th>March 31, 2018</th>
<th>December 31, 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Current assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash</td>
<td>2,584,988</td>
<td>622,846</td>
</tr>
<tr>
<td>Accounts receivable [note 5]</td>
<td>419,706</td>
<td>437,869</td>
</tr>
<tr>
<td>Costs and profits in excess of billings on uncompleted contracts [note 6]</td>
<td>190,164</td>
<td>115,226</td>
</tr>
<tr>
<td>Investment tax credits receivable</td>
<td>452,387</td>
<td>797,832</td>
</tr>
<tr>
<td>Prepaid expenses</td>
<td>695,059</td>
<td>401,405</td>
</tr>
<tr>
<td>Inventories</td>
<td>225,353</td>
<td>123,735</td>
</tr>
<tr>
<td><strong>Total current assets</strong></td>
<td><strong>4,567,657</strong></td>
<td><strong>2,498,913</strong></td>
</tr>
<tr>
<td><strong>Non-current assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Deposits and investments</td>
<td>399,530</td>
<td>618,530</td>
</tr>
<tr>
<td>Property plant and equipment</td>
<td>2,847,066</td>
<td>2,247,494</td>
</tr>
<tr>
<td>Intangible assets</td>
<td>458,323</td>
<td>404,013</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td><strong>8,272,576</strong></td>
<td><strong>5,768,950</strong></td>
</tr>
<tr>
<td><strong>Liabilities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Current</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts payable and accrued liabilities [note 7]</td>
<td>4,863,976</td>
<td>5,481,245</td>
</tr>
<tr>
<td>Billings in excess of costs and profits on uncompleted contracts [note 8]</td>
<td>623,555</td>
<td>1,846,715</td>
</tr>
<tr>
<td>Term loans</td>
<td>247,200</td>
<td>537,400</td>
</tr>
<tr>
<td>Current portion of long-term debt [note 9]</td>
<td>120,459</td>
<td>120,374</td>
</tr>
<tr>
<td>Convertible debentures [note 10]</td>
<td>4,000,000</td>
<td>3,916,549</td>
</tr>
<tr>
<td><strong>Total current liabilities</strong></td>
<td><strong>9,855,190</strong></td>
<td><strong>11,902,283</strong></td>
</tr>
<tr>
<td><strong>Non-current</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Long-term debt [note 9]</td>
<td>8,125</td>
<td>10,290</td>
</tr>
<tr>
<td>Convertible debentures [note 10]</td>
<td>1,348,039</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td><strong>11,211,354</strong></td>
<td><strong>11,912,573</strong></td>
</tr>
<tr>
<td><strong>Shareholders’ deficiency [note 11]</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Common shares</td>
<td>33,857,424</td>
<td>30,240,844</td>
</tr>
<tr>
<td>Warrants reserve</td>
<td>512,766</td>
<td>96,021</td>
</tr>
<tr>
<td>Contributed surplus</td>
<td>6,203,267</td>
<td>6,122,794</td>
</tr>
<tr>
<td>Equity portion of convertible debentures [note 10]</td>
<td>692,424</td>
<td>572,582</td>
</tr>
<tr>
<td>Other equity</td>
<td>24,844</td>
<td>24,844</td>
</tr>
<tr>
<td>Deficit</td>
<td>(44,229,503)</td>
<td>(43,200,708)</td>
</tr>
<tr>
<td><strong>Total shareholders’ deficiency</strong></td>
<td><strong>(2,938,778)</strong></td>
<td><strong>(6,143,623)</strong></td>
</tr>
<tr>
<td><strong>Total liabilities and shareholders’ deficiency</strong></td>
<td><strong>8,272,576</strong></td>
<td><strong>5,768,950</strong></td>
</tr>
</tbody>
</table>

**Going concern disclosure, related party transactions and subsequent events [notes 1, 14, and 17]**

**Approved on behalf of the Board:**

[Signed by P. Peter Pascali] P. Peter Pascali  
[Signed by Alan Curleigh] Alan Curleigh
<table>
<thead>
<tr>
<th></th>
<th>Three months ended March 31,</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2018</td>
<td>2017</td>
<td></td>
</tr>
<tr>
<td>$</td>
<td>$</td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td><strong>Revenue [note 16]</strong></td>
<td>2,060,602</td>
<td>1,696,138</td>
<td></td>
</tr>
<tr>
<td><strong>Cost of sales and services [note 13]</strong></td>
<td>1,354,696</td>
<td>820,264</td>
<td></td>
</tr>
<tr>
<td><strong>Gross profit</strong></td>
<td>705,906</td>
<td>875,874</td>
<td></td>
</tr>
<tr>
<td><strong>Expenses (income)</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Selling, general and administrative [note 13]</td>
<td>1,358,369</td>
<td>1,148,916</td>
<td></td>
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<tr>
<td>Research and development</td>
<td>52,498</td>
<td>68,064</td>
<td></td>
</tr>
<tr>
<td>Net finance costs (income) [note 13]</td>
<td>323,834</td>
<td>(42,496)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>1,734,701</td>
<td>1,174,484</td>
<td></td>
</tr>
<tr>
<td><strong>Net loss and comprehensive loss</strong></td>
<td>(1,028,795)</td>
<td>(298,610)</td>
<td></td>
</tr>
<tr>
<td>Basic and diluted loss per share</td>
<td>(0.01)</td>
<td>(0.00)</td>
<td></td>
</tr>
<tr>
<td>Weighted average number of common shares outstanding - basic and diluted</td>
<td>116,349,569</td>
<td>102,494,466</td>
<td></td>
</tr>
</tbody>
</table>

The accompanying notes form an integral part of the financial statements.
## PyroGenesis Canada Inc.

### Condensed Interim Statements of Changes in Shareholders’ Deficiency

(unaudited)

<table>
<thead>
<tr>
<th></th>
<th>Number of Class A common shares</th>
<th>Class A common share capital</th>
<th>Warrants reserve</th>
<th>Contributed surplus</th>
<th>Equity portion of convertible debentures</th>
<th>Other Equity</th>
<th>Deficit</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Balance - December 31, 2017</strong></td>
<td>112,698,081</td>
<td>30,240,844</td>
<td>96,021</td>
<td>6,122,794</td>
<td>572,582</td>
<td>24,844</td>
<td>(43,200,708)</td>
<td>(6,143,623)</td>
</tr>
<tr>
<td>Private placement [note 11]</td>
<td>4,871,429</td>
<td>2,908,155</td>
<td>501,845</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>3,410,000</td>
</tr>
<tr>
<td>Share issue expenses</td>
<td>-</td>
<td>(128,790)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(128,790)</td>
</tr>
<tr>
<td>Issuance of broker warrants</td>
<td>-</td>
<td>(10,921)</td>
<td>10,921</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Shares issued upon exercise of warrants [note 11]</td>
<td>1,797,500</td>
<td>725,146</td>
<td>(96,021)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>629,125</td>
</tr>
<tr>
<td>Shares issued upon exercise of stock options [note 11]</td>
<td>245,000</td>
<td>122,990</td>
<td>-</td>
<td>(49,490)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>73,500</td>
</tr>
<tr>
<td>Issuance of convertible debentures [note 10]</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>119,842</td>
<td>-</td>
<td>-</td>
<td>119,842</td>
</tr>
<tr>
<td>Share-based payments</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>129,963</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>129,963</td>
</tr>
<tr>
<td><strong>Comprehensive loss during the period</strong></td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(1,028,795)</td>
</tr>
<tr>
<td><strong>Balance – March 31, 2018</strong></td>
<td>119,612,010</td>
<td>33,857,424</td>
<td>512,766</td>
<td>6,203,267</td>
<td>692,424</td>
<td>24,844</td>
<td>(44,229,503)</td>
<td>(2,938,778)</td>
</tr>
<tr>
<td><strong>Balance - December 31, 2016</strong></td>
<td>101,858,434</td>
<td>25,442,906</td>
<td>901,211</td>
<td>5,679,580</td>
<td>572,582</td>
<td>24,844</td>
<td>(37,026,405)</td>
<td>(4,405,282)</td>
</tr>
<tr>
<td>Shares issued upon exercise of warrants</td>
<td>1,142,857</td>
<td>655,714</td>
<td>(237,857)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>417,857</td>
</tr>
<tr>
<td>Share-based payments</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>138,151</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>138,151</td>
</tr>
<tr>
<td><strong>Comprehensive loss during the period</strong></td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(298,610)</td>
</tr>
<tr>
<td><strong>Balance – March 31, 2017</strong></td>
<td>104,001,291</td>
<td>26,098,620</td>
<td>663,354</td>
<td>5,817,731</td>
<td>572,582</td>
<td>24,844</td>
<td>(37,325,015)</td>
<td>(4,147,884)</td>
</tr>
</tbody>
</table>

The accompanying notes form an integral part of the financial statements.
## Condensed Interim Statements of Cash Flows

(unaudited)

<table>
<thead>
<tr>
<th></th>
<th>Three months ended March 31,</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2018</td>
<td>2017</td>
</tr>
<tr>
<td></td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td><strong>Cash flows provided by (used in)</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Operating activities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net loss</td>
<td>(1,028,795)</td>
<td>(298,610)</td>
</tr>
<tr>
<td>Adjustments for:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Share-based payments</td>
<td>129,963</td>
<td>138,151</td>
</tr>
<tr>
<td>Depreciation on property plant and equipment</td>
<td>29,717</td>
<td>25,198</td>
</tr>
<tr>
<td>Finance costs [note 13]</td>
<td>104,834</td>
<td>157,847</td>
</tr>
<tr>
<td>Change in fair value of investments</td>
<td>219,000</td>
<td>(200,343)</td>
</tr>
<tr>
<td><strong>Net change in non-cash operating working capital items [note 12]</strong></td>
<td>(545,281)</td>
<td>(177,757)</td>
</tr>
<tr>
<td>Interest paid</td>
<td>(489)</td>
<td>(83,417)</td>
</tr>
<tr>
<td><strong>Investing activities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Purchase of property and equipment</td>
<td>(629,289)</td>
<td>(392,514)</td>
</tr>
<tr>
<td>Additions to intangible assets</td>
<td>(54,310)</td>
<td>-</td>
</tr>
<tr>
<td><strong>Financing activities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Repayment of loans</td>
<td>(290,200)</td>
<td>-</td>
</tr>
<tr>
<td>Repayment of long-term debt [note 9]</td>
<td>-</td>
<td>(40,000)</td>
</tr>
<tr>
<td>Repayment of capital lease obligations</td>
<td>(2,080)</td>
<td>(753)</td>
</tr>
<tr>
<td>Proceeds from issuance of shares – Private placement [note 11]</td>
<td>2,080,001</td>
<td>-</td>
</tr>
<tr>
<td>Share issue costs [note 11]</td>
<td>(128,790)</td>
<td>-</td>
</tr>
<tr>
<td>Proceeds from issuance of shares upon exercise of warrants [note 11]</td>
<td>629,125</td>
<td>417,857</td>
</tr>
<tr>
<td>Proceeds from issuance of shares upon exercise of stock options [note 11]</td>
<td>73,500</td>
<td>-</td>
</tr>
<tr>
<td>Net proceeds from the issuance of convertible debentures [note 10 and 17]</td>
<td>1,467,881</td>
<td>-</td>
</tr>
<tr>
<td><strong>Net increase (decrease) in cash</strong></td>
<td>3,829,437</td>
<td>377,104</td>
</tr>
<tr>
<td><strong>Cash - beginning of period</strong></td>
<td>1,962,142</td>
<td>893,190</td>
</tr>
<tr>
<td><strong>Cash - end of period</strong></td>
<td>2,584,988</td>
<td>1,278,447</td>
</tr>
</tbody>
</table>

### Supplemental cash flow disclosure

**Non-cash transactions:**

- Issuance of share upon exercise of warrants and stock options: $145,511, $237,857
- Issuance of shares in settlement of account payable related to long-term debt [note 11]: $1,329,999, -
- Issuance of broker warrants: $10,921, -
- Purchase of equipment under capital lease obligations: - $25,421

The accompanying notes form an integral part of the financial statements.
1. Nature of operations and going concern disclosure

(a) Nature of operations

PyroGenesis Canada Inc. (the “Company”), incorporated under the laws of the Canada Business Corporations Act, was formed on July 11, 2011. The Company owns patents of advanced waste treatment systems technology and designs, develops, manufactures and commercialises advanced plasma processes and systems. The Company is domiciled at 1744 William Street, Suite 200, Montreal, Quebec. The Company is publicly traded on the TSX Venture Exchange under the Symbol “PYR”. During the Company received approval to trade on the OTCQB in the USA under the symbol “PYRF”.

(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 realise its assets and discharge its liabilities in the normal course of business for the foreseeable future.

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

The Company has incurred, in the last several years, operating losses and negative cash flow from operations, resulting in an accumulated deficit of $44,229,503 as at March 31, 2018. Furthermore, as at March 31, 2018, the Company’s current liabilities and expected level of expenses for the next twelve months exceed cash on hand of $2,584,988. The Company currently has no committed sources of financing available. The Company has relied upon external financings to fund its operations in the past, primarily through the issuance of equity, debt, and convertible debentures, as well as from investment tax credits.

The Company’s business plan is dependent upon raising additional funds to finance operations within and beyond the next twelve months. While the Company has been successful in securing financing in the past, raising additional funds is dependent on a number of factors outside the Company’s control, and as such there is no assurance that it will be able to do so in the future. If the Company is unable to obtain sufficient additional financing, it may have to curtail operations and development activities, any of which could harm the business, financial condition and results of operations.

These conditions indicate the existence of a material uncertainty that may cast significant doubt about the Company’s ability to continue operating as a going concern and realise its assets and settle its liabilities and commitments in the normal course of business.

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

(a) Statement of compliance:

These condensed interim financial statements of the Company have been prepared in accordance with International Accounting Standard ("IAS") 34 – *Interim Financial Reporting*. These condensed interim financial statements do not include all of the necessary information required for full annual financial statements in accordance with International Financial Reporting Standards ("IFRS") and should be read in conjunction with the Company’s audited annual financial statements for the year ended December 31, 2016.

These condensed interim financial statements were approved and authorized for issuance by the Board of Directors on May 25, 2018.

(b) Functional and Presentation Currency

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

(c) Basis of measurement

These condensed interim financial statements have been prepared on the historical cost basis except for investments which are accounted for at fair value.

3. Changes in significant accounting policies

Except as described below, the accounting policies applied in these condensed interim financial statements are the same as those applied in the Company’s financial statements as at and for the year ended December 31, 2017. The changes in accounting policies are also expected to be reflected in the Company’s financial statements as at and for the year ending December 31, 2018.

The Company has initially adopted IFRS 15, Revenue from Contracts with Customers and IFRS 9, Financial Instruments, as at December 31, 2017. The Company has also adopted amendments to IFRS 2, Classification and Measurement of Share-Based Payment Transactions and IFRIC 23, Uncertainty over Income Tax Treatments, as at December 31, 2017, but they did not have an impact on the Company’s consolidated financial statements.

The effect of initially applying these standards, amendments and interpretations is mainly attributed to the following:

**IFRS 15 – Revenues from contracts with customers**

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations.

The details of the new significant accounting policies and the nature of the changes to previous accounting policies in relation to the Company’s various goods and services are set out below.

Under IFRS 15, revenue is recognised when a customer obtains control of the goods or services. Determining the timing of the transfer of control – at a point in time or over time – requires judgement.
3. Changes in significant accounting policies (continued)

Revenue from the Company’s different agreements is assessed in order to determine whether they contain separately identifiable components representing performance obligations. When separation is required, the consideration received, or receivable is allocated amongst the separate components based on the relative fair values of each performance obligations. When the fair value of the delivered performance obligation is not reliably measurable, then revenue is allocated based on the difference between the total arrangement consideration and the fair value of the undelivered item. The applicable revenue recognition criteria are applied to each of the separate performance obligation. Otherwise, the applicable revenue recognition criteria are applied to the combined performance obligations as a whole.

Long-term contracts

The Company has determined that for made-to-order customized equipment and machines that require integrated phases such as design, assembling, commissioning and testing representing one performance obligations. The customer controls all of the work in progress as the products are being manufactured. This is because under those contracts the equipment or machines are made to a customer’s specification and if a contract is terminated by the customer, then the Company is entitled to reimbursement of the costs incurred to date, including a reasonable margin. Therefore, revenue from these contracts and the associated costs are recognised over time – i.e. before the goods are delivered to the customers’ premises. Invoices are issued according to contractual terms and are usually payable within 30 days. The costs and profits in excess of billings on uncompleted contracts are presented as assets and the excess of billing in excess of costs and profits on uncompleted contracts are presented as liabilities.

Revenues relating to long-term contracts are recognised as the work is performed using the percentage-of-completion method. The degree of completion is assessed based on either 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 or the proportion of total hours incurred to date, compared to total hours anticipated to provide the service 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.

Under IAS 18, revenue for long-term contract was recognised using the same method, over time.

Sales of goods and services

Revenue related to engineering services, which are not long-term contracts, are recognised as the services are performed or when it transfers control over a product or service to a customer. The control is transferred when the service is rendered or the products is delivered to and have been accepted at their premises. Invoices are generated and revenue is recognised at that point in time. When the Company is entitled to reimbursement of the cost to date, including a reasonable margin the revenue is recognised over time. Invoices are usually payable within 30 days. No discounts are provided.
3. Changes in significant accounting policies (continued)

Sale of other property

Revenue from the sale of other property is recognised when the entity has transferred to the buyer the significant risks and rewards of ownership of the property, and the entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the property sold. Revenue is recognised at a point in time.

The adoption of IFRS 15 did not have a significant impact on the Company’s accounting policies.

IFRS 9 – Financial instruments

IFRS 9 replaced IAS 39 – Financial Instruments: Recognition and Measurement and was mandatorily effective for annual periods beginning on or after January 1, 2018. As permitted by IFRS 9, the Company has taken the exemption not to restate the comparative information in the financial statements with respect to classification and measurement requirements. The retrospective impact of applying IFRS 9 was accounted for through adjustments to the opening balance of deficit and accumulated other comprehensive loss as at January 1, 2018.

The adoption of IFRS 9 did not have a significant impact on the Company’s interim condensed financial statements.

Classification and measurement

IFRS 9 retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities. However, it eliminates the previous IAS 39 categories for financial assets of held to maturity, loans and receivables and available-for-sale.

Under IFRS 9, all equity instrument financial assets must be classified as at fair value through profit or loss. However, the Company may, at initial recognition of a non-trading equity instrument, irrevocably elect to designate the instrument as at fair value through other comprehensive income with no subsequent reclassification of gains and losses to net earnings. This election is made on an investment-by-investment basis. Dividends will continue to be recognized in net loss. This designation is also available for existing non-trading equity instruments at the date of IFRS 9 adoption. Derivative financial instruments continue to be measured at fair value through profit or loss.

Under IAS 39, the equity securities were designated as at FVTPL because they were managed on a fair value basis and their performance was monitored on this basis. These assets have been classified as mandatorily measured at FVTPL under IFRS 9.

Financial assets will not be reclassified subsequent to their initial recognition, unless the Company identifies changes in the business model in managing financial assets.

There were no changes to the measurement categories under IFRS 9 for the Company’s financial liabilities as at January 1, 2018 and therefore the Company’s financial liabilities are not presented in the table below.
3. Changes in significant accounting policies (continued)

Classification and measurement (continued)

The following table presents the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Company’s financial assets as at January 1, 2018.

<table>
<thead>
<tr>
<th>Original classification under IAS 39</th>
<th>New classification under IFRS 9</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>Loans and receivables</td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>Loans and receivables</td>
</tr>
<tr>
<td>Investments</td>
<td>Fair value through profit or loss</td>
</tr>
<tr>
<td></td>
<td>Amortized cost</td>
</tr>
<tr>
<td></td>
<td>Amortized cost</td>
</tr>
<tr>
<td></td>
<td>Fair value through profit or loss</td>
</tr>
</tbody>
</table>

Impairment

IFRS 9 replaces the “incurred loss” model in IAS 39 with an “expected credit loss” (“ECL”) model. The new ECL impairment model applies to financial assets measured at amortized cost, contract assets and debt investments at fair value through other comprehensive income, but not to investments in equity instruments. Under IFRS 9, credit losses are recognized earlier than under IAS 39.

The Company’s financial assets subject to the new impairment model are cash and accounts receivable. The new impairment guidance using an expected credit loss model did not have a significant impact on the carrying amounts of the Company’s accounts receivable or long-term receivable as the Company has had a negligible credit losses.

4. Significant accounting judgments, estimates and assumptions

The accounting judgments, estimates and assumptions applied by the Company in these condensed interim financial statements are the same as those applied by the Company in its audited annual financial statements as at and for the year ended December 31, 2017.
5. Accounts receivable

Details of accounts receivable were as follows:

<table>
<thead>
<tr>
<th></th>
<th>March 31, 2018</th>
<th>December 31, 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 – 30 days</td>
<td>205,142</td>
<td>263,005</td>
</tr>
<tr>
<td>30 – 60 days</td>
<td>65,210</td>
<td>127,0856</td>
</tr>
<tr>
<td>61 – 90 days</td>
<td>15,452</td>
<td>-</td>
</tr>
<tr>
<td>Greater than 90 days</td>
<td>4,542</td>
<td>4,101</td>
</tr>
<tr>
<td>Total</td>
<td>290,346</td>
<td>394,192</td>
</tr>
<tr>
<td>Other receivable</td>
<td>129,360</td>
<td>43,677</td>
</tr>
<tr>
<td></td>
<td>419,706</td>
<td>437,869</td>
</tr>
</tbody>
</table>

There is no allowance for doubtful accounts recorded as at March 31, 2018 and December 31, 2017.

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

As at March 31, 2018, the Company had five contracts with total billings of $737,646 which were less than total costs incurred and had recognized cumulative revenue of $927,810 since those projects began. This compares with seven contracts with total billings of $106,097 which were less than total costs incurred and had recognized cumulative revenue of $221,323 from three contracts as at December 31, 2017.

7. Accounts payable and accrued liabilities

<table>
<thead>
<tr>
<th></th>
<th>March 31, 2018</th>
<th>December 31, 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts payable trade</td>
<td>781,260</td>
<td>747,325</td>
</tr>
<tr>
<td>Accrued liabilities</td>
<td>1,919,990</td>
<td>1,295,628</td>
</tr>
<tr>
<td>Settlement agreement payable to a company under common control of the controlling shareholder and CEO</td>
<td>1,885,644</td>
<td>3,215,643</td>
</tr>
<tr>
<td>Accounts payable to the controlling shareholder</td>
<td>185,532</td>
<td>205,641</td>
</tr>
<tr>
<td>Accounts payable to a trust beneficially owned by the controlling shareholder</td>
<td>91,550</td>
<td>17,008</td>
</tr>
<tr>
<td></td>
<td>4,863,976</td>
<td>5,481,245</td>
</tr>
</tbody>
</table>

The settlement agreement payable to a company under common control to the controlling shareholder and CEO of $3,215,643 related to the Balance of sale payable to a company under common control of the controlling shareholder and CEO (see note 9). On February 9, 2018, an amount of $1,329,999 was settled by the issuance of 1,899,999 units as part of the private placement (note 11).
8. Billings in excess of costs and profits on uncompleted contracts

The amount to date of costs incurred and recognized profits less recognized losses for construction projects in progress amounted to $3,527,144 (Dec 31, 2017 - $3,657,621).

Payments received on contracts in progress were $2,903,589 (Dec 31, 2017 - $5,184,336 in cash and $320,000 of other assets).

9. Long-term debt

<table>
<thead>
<tr>
<th></th>
<th>March 31, 2018</th>
<th>December 31, 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance of sale payable to company under common control</td>
<td>111,928</td>
<td>111,928</td>
</tr>
<tr>
<td>Obligations under finance lease</td>
<td>16,656</td>
<td>18,736</td>
</tr>
<tr>
<td>Instalments due within one year</td>
<td>120,459</td>
<td>120,374</td>
</tr>
<tr>
<td>Long-term debt</td>
<td>8,125</td>
<td>10,290</td>
</tr>
</tbody>
</table>

The balance of sale payable to a company under common control of the controlling shareholder and CEO (“Balance of sale”) arose from the purchase of the intangible assets in March 2011 and was originally payable in monthly installments of $40,000 from April 1, 2011 until December 31, 2040 and does not carry any interest. Various amendments occurred since 2011 to modify the terms and conditions of the amounts due on the Balance of sale. Following the provisions of the latest amendment dated December 31, 2015 the remaining Balance of sale is payable in monthly installments of $100,000. The face value of the Balance of sale on at December 31, 2017 is $111,928 (2016 - $478,416) and the carrying amount is determined using an effective interest rate of 15%.

Following the amended purchase agreement, 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.

In April 2018, a claim of $5,420,000, has been notified by the company under common control in connection with the share for debt conversion transaction that took place in 2014 over the Balance of sale. The claim and the Balance of sale of $111,928 outstanding as at December 31, 2017 have been settled as follows: (i) on February 9 and March 7, 2018, issuance of 1,899,999 units at a value of $0.70 per unit with each unit consisting of 1 common share of the Company and 1 common share purchase warrant which entitles the holder to purchase 1 common share at a price of $1.25 until August 9th, 2019, and (ii) on April 30, 2018, issuance of 3,385,715 units at a value of $0.59 per unit with each unit consisting of 1 common share of the Company and 1 common share purchase warrant which entitles the holder to purchase 1 common share at a price of $0.85 until April 19, 2020.

On April 30, 2018, the Company and the company under control of the controlling shareholder and CEO entered into a settlement agreement to resolve a claim in the amount of $5,420,000 made by the company under control of the controlling shareholder and CEO in connection with the share for debt conversion transaction between the parties that took place in 2014. Under the share for debt conversion, the Company issued 7,500,000 common shares in 2014 to settle $6,000,000 of the carrying value of the Balance of sale payable.

9. Long-term debt (continued)
The settlement agreement provides for the issuance of units by the Company having a value of $3,215,643 to the company under common control of the controlling shareholder and CEO.

10. Convertible debentures

At the issuance date the convertible debentures were recorded as follows:

<table>
<thead>
<tr>
<th></th>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debt component, net of transactions cost of $242,905</td>
<td>3,140,222</td>
</tr>
<tr>
<td>Conversion option recognized in equity, net of transaction cost of $44,291</td>
<td>572,582</td>
</tr>
<tr>
<td>Net proceeds</td>
<td>3,712,804</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th></th>
<th>March 31, 2018</th>
<th>December 31, 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance, beginning of period</td>
<td>3,916,549</td>
<td>3,605,897</td>
</tr>
<tr>
<td>Effective interest accretion</td>
<td>83,451</td>
<td>310,652</td>
</tr>
<tr>
<td>Balance, end of period</td>
<td>4,000,000</td>
<td>3,916,549</td>
</tr>
</tbody>
</table>

The total amount of the convertible debentures issued on March 30, 2015 was settled on April 2, 2018 (note 17). On March 19, 2018, the Company received an amount of $1,467,881 as partial proceeds, net of financing fees of $42,119, for a $3,000,000 non-brokered private placement of 9.5% secured convertible debentures completed on April 2, 2018 (note 17). On March 31, 2018, an amount of $119,842 was accounted for as an equity portion of the convertible debenture, net of financing fees of $3,439.

As at April 2, the convertible debentures will be recorded as follows:

<table>
<thead>
<tr>
<th></th>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debt component, net of total transactions cost of $265,739</td>
<td>2,489,334</td>
</tr>
<tr>
<td>Conversion option recognized in equity, net of total transaction cost of $23,624</td>
<td>221,303</td>
</tr>
<tr>
<td>Net proceeds</td>
<td>2,710,637</td>
</tr>
</tbody>
</table>
11. Shareholders’ equity

Issuance of shares

On February 9, 2018 and March 7, 2018, the Company issued an amount of 1,899,999 units to a company under common control of the controlling shareholder and CEO under a settlement agreement (see note 7, 9 and 17) and 2,971,430 units to an unrelated party for an aggregate amount of 4,871,429 units at a price of $0.70 per Unit, for gross proceeds of $3,410,000. Each unit consists of one common share of the Company and one Common Share purchase warrant. Each warrant entitles the holder thereof to purchase one common share at a price of $1.25 until August 9th, 2019. Each unit will be subject to a statutory hold period of four months and one day from the date of closing. In connection with the private placement, the Company paid finder fees in the amount of $127,750 and issued 88,000 finder’s compensation warrants to the agents.

The fair value of the share purchase warrants and the finder’s compensation warrants was estimated at $501,845 and $10,921 respectively by applying the Black-Scholes option pricing model, using an expected time-period of 18 months, a semi-annual weighted-average risk-free interest rate of 1.74%, a volatility rate of 71.9% and a 0% dividend factor.

During the three months ended March 31, 2018, the Company issued 1,797,500 common shares upon the exercise of warrants for net proceeds of $629,125. The fair value of the warrants of $96,021 which was accounted for as contributed surplus has been reclassified as capital shares.

During the three months ended March 31, 2018, 245,000 stock options were exercised for a net proceed of $73,500. The amounts credited to share capital from the exercise of stock options include an ascribed value from contributed surplus of $49,490.

Stock options plan

As at March 31, 2018, an amount of $378,100 remains to be amortized in future periods (until February 2023) related to the grant of stock options.

The following table sets out the activity in stock options during the three month ended March 31, 2018:

<table>
<thead>
<tr>
<th>Number of options</th>
<th>Weighted average exercise price</th>
</tr>
</thead>
<tbody>
<tr>
<td>Options, December 31, 2017</td>
<td>9,376,000</td>
</tr>
<tr>
<td>Granted</td>
<td>200,000</td>
</tr>
<tr>
<td>Exercised</td>
<td>(245,000)</td>
</tr>
<tr>
<td>Forfeited</td>
<td>(160,000)</td>
</tr>
<tr>
<td>Balance, March 31, 2018</td>
<td>9,171,000</td>
</tr>
</tbody>
</table>

On February 9, 2018, the Company issued 200,000 stock options to an officer with an exercise price of $0.60 and are exercisable over a period of 48 months. The fair value of the stock options was estimated at $0.37 per option by applying the Black-Sholes option pricing model, using an expected time-period of 5 years, a risk-free interest rate of 2.06%, a volatility rate of 74% and a 0% dividend factor.
11. Shareholders’ equity (continued)

As at March 31, 2018, 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:

<table>
<thead>
<tr>
<th>Issue date</th>
<th>Number of options</th>
<th>Exercise price</th>
<th>Number of exercisable options (1)</th>
<th>Expiry date</th>
</tr>
</thead>
<tbody>
<tr>
<td>February 12, 2015</td>
<td>2,065,000</td>
<td>0.30</td>
<td>2,065,000</td>
<td>February 12, 2020</td>
</tr>
<tr>
<td>September 25, 2016</td>
<td>4,150,000</td>
<td>0.18</td>
<td>4,150,000</td>
<td>September 25, 2021</td>
</tr>
<tr>
<td>October 20, 2016</td>
<td>56,000</td>
<td>0.18</td>
<td>-</td>
<td>October 20, 2021</td>
</tr>
<tr>
<td>October 25, 2016</td>
<td>100,000</td>
<td>0.19</td>
<td>30,000</td>
<td>October 25, 2021</td>
</tr>
<tr>
<td>November 3, 2017</td>
<td>2,600,000</td>
<td>0.58</td>
<td>1,220,000</td>
<td>November 3, 2022</td>
</tr>
<tr>
<td>February 9, 2018</td>
<td>200,000</td>
<td>0.60</td>
<td>20,000</td>
<td>February 9, 2023</td>
</tr>
<tr>
<td></td>
<td>9,171,000</td>
<td>0.33</td>
<td>7,485,000</td>
<td></td>
</tr>
</tbody>
</table>

(1) At March 31, 2018, the weighted average price of the exercisable options was $0.28.

Share purchase warrants

The following table reflects the activity in warrants during the three months ended March 31, 2018 and the number of issued and outstanding share purchase warrants at March 31, 2018:

<table>
<thead>
<tr>
<th>Number of warrants</th>
<th>December 31, 2017</th>
<th>Issued</th>
<th>Exercised</th>
<th>Number of warrants</th>
<th>March 31, 2018</th>
<th>Price per warrant</th>
<th>Expiry date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Private placement</td>
<td>1,797,500</td>
<td>-</td>
<td>(1,797,500)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Issuance of units</td>
<td>-</td>
<td>4,871,429</td>
<td>-</td>
<td>4,871,429</td>
<td>1.25</td>
<td>Aug 9, 2019</td>
<td></td>
</tr>
<tr>
<td>Broker warrants</td>
<td>-</td>
<td>88,000</td>
<td>-</td>
<td>88,000</td>
<td>1.25</td>
<td>Aug 9, 2019</td>
<td></td>
</tr>
<tr>
<td></td>
<td>1,797,500</td>
<td>4,959,429</td>
<td>(1,797,500)</td>
<td>4,959,429</td>
<td>1.25</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

1 Upon the exercise of the warrants, an amount of $96,021 was reclassified from the share purchase warrants reserve to the common shares.
12. Supplemental disclosure of cash flow information

Net changes in non-cash components of operating working capital

<table>
<thead>
<tr>
<th></th>
<th>Three months ended March 31,</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2018</td>
<td>2017</td>
</tr>
<tr>
<td><strong>Decrease (increase) in:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>18,163</td>
<td>(617,489)</td>
</tr>
<tr>
<td>Costs and profits in excess of billings on uncompleted contracts</td>
<td>(74,938)</td>
<td>467,255</td>
</tr>
<tr>
<td>Inventory</td>
<td>(101,618)</td>
<td>-</td>
</tr>
<tr>
<td>Investment tax credits receivable</td>
<td>345,445</td>
<td>(132,246)</td>
</tr>
<tr>
<td>Prepaid expenses</td>
<td>(314,548)</td>
<td>(63,826)</td>
</tr>
<tr>
<td><strong>Increase (decrease) in:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts payable and accrued liabilities</td>
<td>712,730</td>
<td>81,304</td>
</tr>
<tr>
<td>Billings in excess of costs and profits on uncompleted contracts</td>
<td>(1,223,160)</td>
<td>1,434,776</td>
</tr>
<tr>
<td></td>
<td>(637,926)</td>
<td>1,169,774</td>
</tr>
</tbody>
</table>

13. Other information

For the three months ended March 31, 2018, depreciation on property and equipment expensed as general and administrative amounted to $29,717 (2017 - $25,198), employee benefits totaled $1,213,744 (2017 - $1,067,443) and share-based compensation expense was $129,963 (2017 - $138,151).

Financing income and finance costs include the following items:

|                                | Three months ended March 31, |        |
|                                | 2018                         | 2017   |
| **Finance income**             |                              |        |
| Adjustment to the fair value of investments | 219,000 | (200,343) |
| Gain on disposal of investments | -                            |        |
|                                | 219,000                      | (200,343) |

| **Finance costs**              |                              |        |
| Interest on convertible debentures | -                           | 75,015 |
| Accretion of convertible debentures | 83,451                      | 74,345 |
| Interest on long-term debt      | 489                          | 8,487  |
| Interest on term loans          | 20,894                       | -      |
|                                | 104,834                      | 157,847 |

Net finance (income) and finance expenses 323,834 (42,496)
PyroGenesis Canada Inc.

Notes to Condensed Interim Financial Statements
March 31, 2018 (unaudited)

14. Related party transactions

During the three months ended March 31, 2018, the company concluded the following transactions with related parties:

Rent was charged by a trust beneficially owned by the controlling shareholder and CEO of the Company in the amount of $51,946 (2017 - $43,452). A balance due of $91,550 (2017 - $17,008) is included in accounts payable and accrued liabilities.

Interest of $Nil (2017 - $14,174) was paid on the $755,000 convertible debentures held by company under common control of the controlling shareholder and CEO. Accreted interest related to the convertible debenture held by a company under common control amounted to $11,623 (2017 - $11,234).

A balance due to the controlling shareholder and CEO of the Company amounted to $193,842 (December 31, 2017 - $205,641) and is included in accounts payable and accrued liabilities.

The balance of sale (note 9) due to a company under common control of the controlling shareholder and CEO, was $111,928 (December 31, 2017 - $111,928), and is included in long term debt. Accreted interest related to the balance of sale amounted to $Nil (2017 - $41,250).

As discussed in notes 9, and 17, the Company and a company under common control of the controlling shareholder and CEO entered into a settlement agreement with respect to the balance of sale payable. On February 9, 2018, 1,899,999 common shares were issued as a partial settlement of the balance of sale payable. The final settlement occurred on April 20, 2018 as mentioned in the Note 17.

The key management personnel of the Company are the members of the Board of Directors and certain executive officers. During the three months ended March 31, 2018, total compensation to key management consisted of the following:

<table>
<thead>
<tr>
<th></th>
<th>Three months ended March 31,</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2018</td>
</tr>
<tr>
<td>Salaries</td>
<td>$124,000</td>
</tr>
<tr>
<td>Pension contributions</td>
<td>$2,040</td>
</tr>
<tr>
<td>Other benefits</td>
<td>$3,381</td>
</tr>
<tr>
<td>Total compensation</td>
<td>$129,421</td>
</tr>
</tbody>
</table>

A balance of $287,207 of key management compensation is included in accounts payable and accrued liabilities as at March 31, 2018 (December 31, 2017 - $72,617).
15. Financial instruments

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

Foreign currency risk

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

As at March 31, 2018, the following items are denominated in foreign currencies:

<table>
<thead>
<tr>
<th></th>
<th>US</th>
<th>CDN</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>374,183</td>
<td>482,443</td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>188,194</td>
<td>242,643</td>
</tr>
<tr>
<td>Accounts payable and accrued liabilities</td>
<td>(88,711)</td>
<td>(114,377)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>473,666</td>
<td>610,709</td>
</tr>
</tbody>
</table>

As at December 31, 2017, the following items are denominated in foreign currencies:

<table>
<thead>
<tr>
<th></th>
<th>US</th>
<th>CDN</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>287,269</td>
<td>360,379</td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>294,347</td>
<td>369,258</td>
</tr>
<tr>
<td>Accounts payable and accrued liabilities</td>
<td>(210,230)</td>
<td>(263,733)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>371,386</td>
<td>465,904</td>
</tr>
</tbody>
</table>

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Sensitivity analysis

At March 31, 2018, if the US Dollar changes by 10% against the Canadian dollar with all other variables held constant, the impact on before-tax gain or loss for the three months ended March 31, 2018 would have been $61,000 (December 31, 2017 – $46,000).
15. Financial instruments (continued)

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The maximum credit risk to which the Company is exposed as at March 31, 2018 represents the carrying amount of cash, account receivable and deposits.

Credit concentration

During the three months ended March 31, 2018, three customers accounted for 88% (March 31, 2017 – three customers for 65%) of revenues from operations.

<table>
<thead>
<tr>
<th></th>
<th>Three months ended</th>
<th>Three months ended</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>March 31, 2018</td>
<td>March 31, 2017</td>
</tr>
<tr>
<td></td>
<td>Revenues</td>
<td>% of total revenues</td>
</tr>
<tr>
<td>Customer 1</td>
<td>527,444</td>
<td>26%</td>
</tr>
<tr>
<td>Customer 2</td>
<td>557,626</td>
<td>27%</td>
</tr>
<tr>
<td>Customer 3</td>
<td>736,660</td>
<td>36%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1,821,730</strong></td>
<td><strong>88%</strong></td>
</tr>
</tbody>
</table>

Four customers accounted for 82% (December 31, 2017 – two customers for 89%) of the accounts receivable, representing the Company’s major credit risk exposure. Credit concentration is determined based on customers representing 10% or more of total revenues and/or total accounts receivable. The Company believes that there is no unusual exposure associated with the collection of these receivables. The Company manages its credit risk by performing credit assessments of its customers and provides allowances for potentially uncollectible accounts receivable. The Company does not generally require collateral or other security from customers on accounts receivable.

Fair value of financial instruments

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

- **Level 1** — quoted prices (unadjusted) in active markets for identical assets or liabilities.
- **Level 2** — inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).
- **Level 3** — inputs for the asset or liability that are not based on observable market data.

The fair values of cash, accounts receivable, accounts payable and accrued liabilities, loans, convertible debentures and finance lease approximate their carrying amounts due to their short-term maturities. Investments are valued at fair value are classified as Level 1.
15. 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, and on the fair value of investments or liabilities, known as price risks. The Company is exposed to a risk of fair value on the convertible debentures as those financial instruments bear interest at fixed rates.

Price risk

Other price risk is the risk that the fair value or future cash flows of a financial instruments will fluctuate because of changes in market price (other than those arising from foreign currency risk and interest risk), whether those changes are caused by factors specific to the individual financial instrument or its issuers or factors affecting all similar financial instruments traded in the market. The most significant exposure to other price risk for the Company arises from the investments. If equity prices had increased or decreased by 5% as at March 31, 2018, with all other variables held constant, the Company's investments would have increased or decreased respectively, by approximately $17,000 (December 31, 2017 - $28,000).

Liquidity risk

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

The following table summarizes the contractual maturities of financial liabilities as at March 31, 2018:

<table>
<thead>
<tr>
<th></th>
<th>Total</th>
<th>6 months or less</th>
<th>6 to 12 months</th>
<th>1-3 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts payable and</td>
<td>$2,978,332</td>
<td>$2,978,332</td>
<td>$-</td>
<td>$-</td>
</tr>
<tr>
<td>accrued liabilities</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital lease</td>
<td>$17,330</td>
<td>$4,521</td>
<td>$4,521</td>
<td>$8,288</td>
</tr>
<tr>
<td>obligations</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Term loan</td>
<td>$247,200</td>
<td>$-</td>
<td>$247,200</td>
<td>$-</td>
</tr>
<tr>
<td>Long-term debts</td>
<td>$111,928</td>
<td>$111,928</td>
<td>$-</td>
<td>$-</td>
</tr>
<tr>
<td>Convertible</td>
<td>$5,510,000</td>
<td>$4,000,000</td>
<td>$-</td>
<td>$1,510,000</td>
</tr>
<tr>
<td>debentures</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>$8,864,790</td>
<td>$7,094,781</td>
<td>$251,721</td>
<td>$1,518,288</td>
</tr>
</tbody>
</table>


16. Segment information

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

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

<table>
<thead>
<tr>
<th></th>
<th>Three months ended March 31,</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2018</td>
</tr>
<tr>
<td>Revenue from external customers</td>
<td></td>
</tr>
<tr>
<td>Canada</td>
<td>777,118</td>
</tr>
<tr>
<td>United States</td>
<td>717,315</td>
</tr>
<tr>
<td>Europe</td>
<td>-</td>
</tr>
<tr>
<td>Asia</td>
<td>8,542</td>
</tr>
<tr>
<td>Mexico</td>
<td>557,627</td>
</tr>
<tr>
<td></td>
<td>2,060,602</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th></th>
<th>Three months ended March 31,</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2018</td>
</tr>
<tr>
<td></td>
<td>$</td>
</tr>
<tr>
<td>Sales of goods under long-term contracts</td>
<td>576,374</td>
</tr>
<tr>
<td>Services</td>
<td>1,484,228</td>
</tr>
<tr>
<td></td>
<td>2,060,602</td>
</tr>
</tbody>
</table>
17. Subsequent events

On April 2, 2018, the Company completed a $3,000,000 non-brokered private placement of 9.5% secured convertible debentures. The convertible debentures bear interest at the rate of 9.5% per annum, with interest payable in cash on a quarterly basis, and mature on March 29, 2020. Each Debenture is convertible into common shares of the Company at a conversion price of $0.80 per common share. The convertible debentures and the common shares issuable on conversion of the Debentures will be subject to a statutory hold period of four months and one day from the closing date of the Offering. In connection with the convertible debenture, the Company paid finder fees in the amount of $180,000 to the agent. Total transaction costs amount to $289,363 are allocated between liability (see note 10).

On April 2, 2018 the Company redeemed $3,245,000 of the $4,000,000 unsecured convertible debenture. The subordinated unsecured convertible debenture matured on March 30, 2018 and had an interest component of 7.5% per annum, payable quarterly. The unsecured convertible debenture was 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.

On April 3, 2018, the Company granted 500,000 stock options to a consultant, to promote the business interests of the Company worldwide. The stock options have an exercise price of $0.70 per Common Share and are exercisable over a period of 18 months. The stock options are granted in accordance with the Company’s stock option plan.

On April 19, 2018, the Company issued an amount of 1,258,333 units to a company under common control of the controlling shareholder and CEO to redeem the remaining balance of 755,000 of the $4,000,000 unsecured convertible debenture. The Company also issued 1,850,000 units to an unrelated party at a price of $0.60 per unit, for gross proceeds of $1,110,000. Each unit consists of one common share of the Company and one common share purchase warrant. Each warrant entitles the holder thereof to purchase one common share at a price of $0.85 until April 19th, 2020. Each unit will be subject to a statutory hold period of four months and one day from the date of closing. In connection with the private placement, the Company paid finder fees in the amount of $89,478 to the agents.

On April 30, 2018 the Company issued an amount of 3,385,715 units to a company under common control of the controlling shareholder and CEO under a settlement agreement (see note 14). Each unit consists of one common share of the Company and one common share purchase warrant. Each warrant entitles the holder thereof to purchase one common share at a price of $0.85 until April 19, 2020. Each Unit will be subject to a statutory hold period of four months and one day from the date of closing.

On May 10, 2018 the Company granted 250,000 stock options to its newest independent member and Audit Committee Chair. The stock options have an exercise price of $0.52 per Common Share and are exercisable over a period of 60 months. The stock options are granted in accordance with the Company’s stock option plan.