PyroGenesis Canada Inc.

Condensed
Interim Financial Statements

Three and six months ended June 30, 2016 and 2015

(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, 2016.

PyroGenesis Canada Inc.

Condensed Interim Statements of Financial Position

(unaudited)

	June 30, 2016	December 31, 2015
	$	$
Assets		
Current assets		
Cash	**58,512**	767,368
Accounts receivable *[note 5]*	**50,006**	359,185
Sales tax receivable	**35,984**	222,151
Costs and profits in excess of billings on uncompleted contracts *[note 6]*	**179,208**	72,865
Inventories	**994,015**	994,015
Investment tax credits receivable	**714,081**	608,369
Prepaid expenses	**257,981**	319,233
Total current assets	**2,289,787**	3,343,186
Non-current assets		
Deposits and other assets	**217,530**	107,530
Costs and profits in excess of billings on uncompleted contracts *[note 6]*	**2,036,055**	1,760,222
Property and equipment	**449,260**	513,771
Intangible assets	**698,138**	1,396,675
Total assets	**5,690,770**	7,121,384
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities *[note 7]*	**2,099,481**	2,056,881
Current portion of loans *[note 9]*	**1,249,080**	472,166
Billings in excess of costs and profits on uncompleted contracts *[note 8]*	**754,600**	648,044
Total current liabilities	**4,103,161**	3,177,091
Non-current liabilities		
Convertible debentures *[note 10]*	**3,463,405**	3,328,722
Total liabilities	**7,566,566**	6,505,813
Shareholders' equity (deficiency)		
Common shares	**24,044,772**	24,044,772
Warrants reserve	**734,004**	734,004
Contributed surplus	**5,415,851**	5,313,555
Equity portion of convertible debentures *[note 10]*	**572,582**	572,582
Other equity	**24,844**	24,844
Deficit	**(32,667,849)**	(30,074,186)
	(1,875,796)	615,571
Total liabilities and shareholders' equity (deficiency)	**5,690,770**	7,121,384

Going concern disclosure, related party transactions, and subsequent events *[notes 1, 14 and 18]*

Approved on behalf of the Board:

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

PyroGenesis Canada Inc.

Condensed Interim Statements of Comprehensive Loss

(unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	**2016**	2015
	$	$	**$**	$
Revenue *[note 17]*	**818,990**	1,533,667	**1,835,842**	2,650,144
Cost of sales and services *[note 13]*	**1,094,196**	1,557,847	**2,166,719**	2,721,438
Gross profit	**(275,206)**	(24,180)	**(330,877)**	(71,294)
Expenses (income)				
Selling, general and administrative	**999,500**	1,108,072	**2,048,415**	2,299,588
Research and development	**18,712**	26,995	**61,589**	56,119
Finance income and finance costs *[note 13]*	**51,582**	137,334	**152,782**	148,858
Other income	**-**	(470)	**-**	(659)
	1,069,794	1,271,931	**2,312,786**	2,503,906
Net loss and comprehensive loss	**(1,345,000)**	(1,296,111)	**(2,593,663)**	(2,575,200)
Basic and diluted loss per share *[note 15]*	**(0.01)**	(0.02)	**(0.02)**	(0.03)
Weighted average number of common shares outstanding - basic and diluted *[note 15]*	**93,666,729**	84,831,729	**93,666,729**	84,830,679

The accompanying notes form an integral part of the financial statements

PyroGenesis Canada Inc.

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

(unaudited)

	Number of Class A common shares	Class A common share capital	Warrants reserve	Contributed surplus	Equity portion of convertible debentures	Other Equity	Deficit	Total
		$	$	$	$	$	$	$
Balance - December 31, 2015	93,666,729	24,044,772	734,004	5,313,555	572,582	24,844	(30,074,186)	615,571
Share-based payments	-	-	-	102,296	-	-	-	102,296
Comprehensive loss during the period	-	-	-	-	-	-	(2,593,663)	(2,593,663)
Balance – June 30, 2016	93,666,729	24,044,772	734,004	5,415,851	572,582	24,844	(32,667,849)	(1,875,796)
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	-	-	(1,332,234)	1,332,234	-	-	-	-
Broker warrants	-	(53,813)	53,813	-	-	-	-	-
Equity portion of convertible debentures	-	-	-	-	572,582	-	-	572,582
Legal fees	-	8,301	-	-	-	-	-	8,301
Share-based payments	-	-	-	183,132	-	-	-	183,132
Transaction with owners	35,000	(18,894)	(1,278,421)	1,496,098	572,582	-	-	771,365
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

The accompanying notes form an integral part of the financial statement

PyroGenesis Canada Inc.

Condensed Interim Statements of Cash Flows

(unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	**2016**	2015
	$	$	**$**	$
Cash flows provided by (used in)				
Operating activities				
Comprehensive loss	**(1,345,000)**	(1,296,111)	(2,593,663)	(2,575,200)
Adjustments for:				
Share-based payments	**35,865**	33,681	102,296	183,132
Depreciation on property and equipment	**32,255**	41,315	64,511	81,401
Finance income and finance costs	**51,582**	137,333	202,782	148,857
Amortization of intangible assets	**349,269**	349,269	698,537	698,537
	(876,029)	(734,513)	(1,525,537)	(1,463,273)
Net change in non-cash operating working capital items *[note 12]*	**581,961**	(635,251)	217,866	129,814
Interest paid	**(93,297)**	(76,223)	(178,099)	(87,747)
	(387,365)	(1,445,987)	(1,485,770)	(1,421,206)
Investing activity				
Purchase of property and equipment	-	(19,132)	-	(31,339)
Financing activities				
Proceeds from (repayment of) loans	220,314	(119,515)	776,914	(674,189)
Proceeds from issuance of convertible debentures	**-**	(48,196)	**-**	2,957,804
Proceeds from issuance of common shares	**-**	-	-	8,301
Proceeds from issuance of common shares upon exercise of option	**-**	-	**-**	7,350
	220,314	(167,711)	776,914	2,299,266
Net increase (decrease) in cash	(167,051)	(1,632,830)	(708,856)	846,721
Cash - beginning of period	**225,563**	2,841,734	767,368	362,183
Cash - end of period	58,512	1,208,904	58,512	1,208,904
Supplemental cash flow disclosure				
Non-cash transactions:				
Issuance of convertible debentures in partial settlement of balance of sale	-	755,000	-	755,000

The accompanying notes form an integral part of the financial statements

1. Nature of operations and going concern disclosure

(a) Nature of operations

PyroGenesis Canada Inc. (the “Company”), incorporated under the laws of the Canada Business Corporations Act, was formed by the amalgamation of PyroGenesis Canada Inc. with Industrial Growth Income Company (“IGIC”) on July 11, 2011. The Company owns patents of advanced waste treatment systems technology and provides design, 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” and on the OTCQB in the USA under the symbol “PYRNF”.

(b) Going concern

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

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

The Company has incurred, in the last several years, operating losses and negative cash flow from operations, with $2,593,663 of losses occurring in 2016 and resulting in an accumulated deficit of $32,667,849 at June 30, 2016. Furthermore, as at June 30, 2016, the Company’s current liabilities and expected level of expenses for the next twelve months exceed cash on hand of $58,512. The Company has relied upon external financings to fund its operations in the past, primarily through the issuance of equity, debt, and convertible debentures, as well as from investment tax credits.

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

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, 2015.

These condensed interim financial statements were approved and authorized for issuance by the Board of Directors on August 30, 2016.

(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.

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, 2015.

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, 2015.

5. Accounts receivable

Details of accounts receivable were as follows:

	June 30, 2016	December 31, 2015
	$	$
1 – 30 days	35,431	143,316
30 – 60 days	-	145,213
61 – 90 days	-	-
Greater than 90 days	7,120	70,656
Total	42,551	359,185
Other receivable	7,455	-
	50,006	359,185

5. Accounts receivable (continued)

Accounts receivable are carried 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 were impaired at June 30, 2016 and December 31, 2015.

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

As at June 30, 2016, the Company had seven contracts with total billings of $354,960 which were less than total costs incurred and had recognized cumulative revenue of $534,168 since those projects began. This compares with three contracts with total billings of $ 708,892 which were less than total costs incurred and had recognized cumulative revenue of $781,757 from three contracts as at December 31, 2015.

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

7. Accounts payable and accrued liabilities

	June 30, 2016	December 31, 2015
	$	$
Accounts payable trade	**1,180,537**	1,196,851
Accrued liabilities	**542,034**	625,818
Accounts payable - shareholder	**154,236**	161,933
Accounts payable - trust beneficially owned by a shareholder	**221,124**	72,279
	2,099,481	2,056,881

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 $2,126,123 (December 31, 2015 - $2,865,970).

Payments received on contracts in progress were $2,250,723 (December 31, 2015 - $3,464,010) in cash and $630,000 of other assets for 2016.

9. Loans

	June 30, 2016	December 31, 2015
	$	$
Balance of sale - company under common control	**472,166**	472,166
SR&ED loan (i)	**376,914**	-
Other loans (ii)	**400,000**	-
	1,249,080	472,166
Current portion	**1,249,080**	472,166
	-	-

(i) In February 2016, the Company announced a financing in the form of two loans with respect to its scientific research and experimental development tax credit ("SR&ED Tax Credits") for the Company's fiscal years ending December 31, 2014 and 2015. The loans total $456,200 but less $49,600 holdback to be disbursed upon reception of notice of assessment, with terms of 9 months and 12 months, bear interest at 18% per annum and a one-time management fee of 5% amounting to $20,330. Pursuant to the financing, the Company granted R&D Capital Inc. a security interest and movable hypothec on its assets, with a first rank claim on the refundable portion of its SR&ED Tax Credits for each of the fiscal years ending December 31, 2014 and 2015.

(ii) On March 22, 2016, the Company entered into loan agreement whereby the Company provided its other assets as security in exchange for a loan of $150,000. The loan bears no interest and is repayable by the transfer of investments held by the Company on or before July 15, 2016. The loan was repaid in accordance with the share debt transaction on July 26, 2016 (see Note 18).

In April 2016, the Company entered into loan agreement whereby the lender benefits from a right of first refusal in the event of sale of a certain assets held by the Company in exchange for a loan of $250,000. The loan bears interest at 2% and is repayable in July 2016.

10. Convertible debentures

At the issuance date the convertible debentures were recorded as follows

	$
Debt component, net of transactions cost of $242,905	3,140,222
Conversion option recognized in equity, net of transaction cost of $44,291	572,582
Net proceeds	**3,712,804**

The convertible debentures outstanding at June 30, 2016 have been recorded as follows:	**June 30, 2016**	December 31, 2015
	$	$
Issuance	3,140,222	3,140,222
Effective interest accretion	226,812	131,424
Amortization of financing costs	96,371	57,076
Balance, end of period	**3,463,405**	**3,328,722**

11. Shareholders' equity

Stock option plan

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

	Options Issued	Weighted average exercise price
		$
Balance – December 31, 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
Options granted	150,000	0.30
Options forfeited	(156,000)	0.20
Balance – December 31, 2015	6,406,000	0.30
Balance – June 30, 2016	**6,406,000**	**0.30**

11. Shareholders' equity (continued)

Stock option plan (continued)

As at June 30, 2016, the outstanding options, as issued under the stock option plan to directors, officers, employees and consultants for the purchases of one common share per option, are as follows:

Outstanding	Exercisable	Weighted averaged exercise price	Expiry date
		$	
500,000	500,000	0.800	July 2016
550,000	550,000	0.175	September 2017
100,000	100,000	0.150	September 2017
2,026,000	2,026,000	0.210	November 2017
100,000	100,000	0.220	May 2018
2,630,000	1,217,000	0.300	February 2020
400,000	120,000	0.320	June 2020
100,000	10,000	0.360	July 2020
6,406,000	4,623,000	0.298	

Warrants

At June 30, 2016, the following exercisable warrants were outstanding:

	Granted and Exercisable	Weighted average exercise price	Expiry date
		$	
Balance – December 31, 2014	13,758,793	0.82	
Warrants expired	(4,424,555)	1.20	March 29, 2015
Broker warrants issued	270,417	0.60	March 30, 2017
Balance – June 30, 2015	9,604,655	0.64	
Warrants expired	(2,906,183)	0.85	November 22, 2015
Broker warrants expired	(325,198)	0.60	November 22, 2015
Warrants issued	4,417,500	0.50	December 11, 2017
Broker warrants issued	91,000	0.20	December 11, 2017
Warrants expired	(3,660,000)	0.55	December 20, 2015
Balance – December 31, 2015	7,221,774	0.51	
Balance – June 30, 2016	**7,221,774**	**0.51**	

12. Supplemental disclosure of expenses and cash flow information

Net changes in non-cash components of operating working capital

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	**2016**	2015
	$	$	**$**	$
Decrease (increase) in:				
Accounts receivable	**137,481**	(240,228)	**309,179**	690,908
Sales tax receivable	**18,807**	6,458	**186,167**	25,438
Costs and profits in excess of billings on uncompleted contracts	**(102,059)**	(185,502)	**(382,176)**	(615,714)
Inventory	**-**	(52,000)	**-**	(52,000)
Investment tax credits receivable	**3,103**	(65,851)	**(105,712)**	(122,285)
Prepaid expenses	**36,023**	(90,706)	**61,252**	43,961
Increase (decrease) in:				
Accounts payable and accrued liabilities	**36,590**	(175,256)	**42,600**	(115,312)
Billings in excess of costs and profits on uncompleted contracts	**452,016**	167,834	**106,556**	274,818
	581,961	(635,251)	**217,866**	129,814

13. Other information

The aggregate amortization of intangible assets expense for the three and the six months ended June 30, 2016 was $349,269 and $698,537, respectively (2015 - $349,269 and $698,537), and is recorded in cost of sales and services.

Depreciation on property and equipment amounted to $32,255 and $64,511 for the three and the six months ended June 30, 2016 respectively (2015 - $41,315 and $81,401) and is expensed to selling, general and administrative. Employee benefits totaled $1,081,333 and $2,204,397 in the three and the six months ended June 30, 2016 respectively (2015 - $540,346 and $975,523) and included share-based compensation of $35,865 and $102,296 (2015 - $33,681 and $183,132).

13. Other information (continued)

Financing income and finance costs include the following items:

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	**2016**	2015
	$	$	**$**	$
Finance income				
Adjustment to the fair value of investments	110,000	-	110,000	-
Gain on disposal of investments	-	-	50,000	-
	110,000	-	160,000	-
Finance costs				
Interest on balance of sale –company under common control	**-**	1,223	**-**	12,747
Interest on convertible debentures	**75,000**	75,000	**150,000**	75,000
Accretion of convertible debentures	**48,507**	42,323	**95,388**	42,323
Amortization of financing cost	**19,778**	-	**39,295**	-
Interest on SR&ED loan	**18,297**	-	**28,099**	-
Other expenses		18,788		18,788
	161,582	137,334	**312,782**	148,858
Net finance (income) and finance expenses	**51,582**	137,334	**152,782**	148,858

14. Related party transactions

During the three and the six months ended June 30, 2016, rent was charged by a trust beneficially owned by a shareholder of the Company in the amount of $47,765 and $95,325 respectively (2015 - $43,943 and $87,683). A balance due of $221,124 (December 31, 2015 - $72,279) is included in accounts payable and accrued liabilities.

During the three and the six months ended June 30, 2016, interest on balance of sale was charged by a company under common control in the amount of $Nil (2015 - $Nil). The balance of interest that has not been paid of $317,319 (December 31, 2015 - $317,319) is included in loans.

During the three and the six months ended June 30, 2016, interest on balance of sale was charged by a company under common control in the amount of $Nil and $Nil respectively (2015 - $1,223 and $12,747). The balance of interest that has not been paid is $Nil (December 31, 2015 - $Nil).

During the three and the six months ended June 30, 2016, interest on the convertible debentures was charged by a shareholder of the Company in the amount of $14,156 and $28,312 (2015 - $14,156 for both period respectively).

During the three and the six months ended June 30, 2016, fees of $22,000 and $53,000 respectively were charged for services rendered by the independent directors who are members of the Company's Board of Directors (2015 - $21,000 and $52,000). A balance of $33,000 (December 31, 2015 – $Nil) is included in accounts payable and accrued liabilities.

During the three and the six months ended June 30, 2016, fees of $17,000 and $47,000 respectively, were charged for professional services rendered by a company controlled by a director of the Company (2015 - $24,514 and $72,514).

14. Related party transactions (continued)

The key management personnel of the Company are the members of the Board of Directors and certain executive officers. They control 66% of the Company's voting shares. During the three and the six months ended June 30, 2016, total compensation to key management consisted of the following:

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	**2016**	2015
	$	$	**$**	$
Salaries	**144,956**	139,451	**320,129**	263,561
Pension contributions	**1,975**	1,975	**3,889**	3,913
Other benefits	**10,173**	10,284	**20,890**	20,537
Total compensation	**157,104**	151,710	**344,908**	288,011

A balance of $133,636 (December 31, 2015 - $171,314) is included in accounts payable and accrued liabilities.

15. 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 diluted weighted average number of shares is calculated assuming the proceeds that arise from the exercise of outstanding and in the money options and warrants that are used to purchase Class A common shares of the Company at their average market price for the year. For the three and the six months ended June 30, 2016 and 2015, 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.

16. 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.

16. Financial instruments (continued)

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, 2016, the following items are denominated in foreign currencies:

	US	CDN
	$	$
Cash	43,206	43,384
Accounts receivable	20,863	27,141
Accounts payable and accrued liabilities	(208,338)	(271,018)
Total	(144,269)	(200,493)

As at December 31, 2015, the following items are denominated in foreign currencies:

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

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Management has implemented a policy to manage foreign exchange risk by using its purchases in US dollars as a natural hedge against its revenue stream. Therefore, the Company does not hold derivative financial instruments to manage the fluctuation of exchange rate risk.

Sensitivity analysis

At June 30, 2016, 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, 2016 would have been $(20,050) (December 31, 2015 – $63,000).

Credit concentration

As at June 30, 2016, three customers accounted for 71% (2015 – three customers for 79%) of revenues from operations and four customers accounted for 100% (December 31, 2015 – three customers for 74%) 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.

16. Financial instruments (continued)

Fair value of financial instruments

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

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

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

As of June 30, 2016 and December 31, 2015, the fair value of the investment and the convertible debentures approximate its carrying value.

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 but the Company is exposed to a risk of fair value on the convertible debentures as those financial instruments bear interest at fixed rates.

Liquidity risk

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

16. Financial instruments (continued)

The following table summarizes the contractual maturities of financial liabilities as at June 30, 2016:

	Total	6 months or less	6 to 12 months	1-2 years
	$	$	$	$
Accounts payable and accrued liabilities	2,099,481	2,099,481	-	-
Loans	1,317,962	493,940	323,788	500,234
Convertible debentures	4,525,021	150,000	150,000	4,225,021
	7,942,464	2,743,421	473,788	4,725,255

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

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

17. Segment information

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

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

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	**2016**	2015
	$	$	**$**	$
Revenue from external customers				
Canada	61,478	893,928	253,917	1,402,583
United States	572,970	73,541	1,117,946	300,332
Europe	25,035	-	32,154	-
Asia	74,117	561,170	346,435	942,201
Mexico	85,390	5,028	85,390	5,028
	818,990	1,553,667	1,835,842	2,650,144

17. Segment information (continued)

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

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	**2016**	2015
	$	$	$	$
Sales of goods under long-term contracts	200,497	1,062,742	431,209	1,873,726
Services	618,493	470,925	1,404,633	776,418
	818,990	1,533,667	1,835,842	2,650,144

18. Subsequent events

On July 26, 2016, the Company completed a share debt transaction to settle outstanding debt whereby the Company issued 2,060,126 common shares of the Company treasury at a deemed price of $0.20 per common share in the aggregate amount of $412,025 The common shares issued are subject to a hold period of four months and one day from the date of issuance. The transaction was approved by TSXV on August 12, 2016.

On July 26, 2016, the Company amended the terms of certain Common Share purchase warrants (the "Warrants") issued by the Company in connection with a private placement completed on November 26, 2014. In connection with this amendment, the exercise price of the Warrants was reduced from $0.55 to $0.26 and in accordance with the policies of the TSXV, the Warrants are subject to an accelerated expiry provision such that the exercise period of the Warrants will be reduced to thirty days if, for any ten consecutive trading days during the unexpired term of the Warrants (the "Premium Trading Days"), the closing price of the Company's Common Shares is $0.325 or more, with the 30-days expiry period to begin no more than seven calendar days after the 10^{th} Premium Trading Day. The expiry date of the Warrants remains November 26, 2016. This Warrant amendment was approved by the TSXV on August 8, 2016

On July 26, 2016, the Company completed a private placement offering (the "Private Placement") whereby the Company issued and sold an aggregate amount of 6,131,579 units of the Company (a "Unit")at a price of $0.19 per Unit, for a gross proceed to the Company of $1,165,000. Each Unit consists of one Common Share of the Company and one half of one Common Share purchase warrants (the "Warrants"). Each Warrant entitles the holder thereof to purchase one Common Share at a price of $0.35 until January 26, 2018. Each Unit is subject to a statutory hold period of four months and one days from the date of closing. In connection with the Private Placement, the Company paid finder fees in the amount of $15,960.

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