PyroGenesis Canada Inc.

Condensed
Interim Financial Statements

Three and nine months ended September 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 September 30, 2016.

PyroGenesis Canada Inc.

Condensed Interim Statements of Financial Position

(unaudited)

	September 30, 2016	December 31, 2015
	$	$
Assets		
Current assets		
Cash	**206,153**	767,368
Accounts receivable *[note 5]*	**250,147**	359,185
Sales tax receivable	**13,613**	222,151
Costs and profits in excess of billings on uncompleted contracts *[note 6]*	**352,538**	72,865
Inventories	**994,015**	994,015
Investment tax credits receivable	**730,435**	608,369
Prepaid expenses	**364,468**	319,233
Total current assets	**2,911,369**	3,343,186
Non-current assets		
Deposits and other assets	**530,444**	107,530
Costs and profits in excess of billings on uncompleted contracts *[note 6]*	**2,036,256**	1,760,222
Property and equipment	**417,949**	513,771
Intangible assets	**348,870**	1,396,675
Total assets	**6,244,888**	7,121,384
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities *[note 7]*	**1,826,454**	2,056,881
Current portion of loans *[note 9]*	**985,266**	472,166
Billings in excess of costs and profits on uncompleted contracts *[note 8]*	**511,791**	648,044
Total current liabilities	**3,323,511**	3,177,091
Non-current liabilities		
Convertible debentures *[note 10]*	**3,533,641**	3,328,722
Total liabilities	**6,857,152**	6,505,813
Shareholders' equity (deficiency)		
Common shares	**25,428,311**	24,044,772
Warrants reserve	**901,211**	734,004
Contributed surplus	**5,845,678**	5,313,555
Equity portion of convertible debentures *[note 10]*	**572,582**	572,582
Other equity	**24,844**	24,844
Deficit	**(33,384,890)**	(30,074,186)
	(612,264)	615,571
Total liabilities and shareholders' equity (deficiency)	**6,244,888**	7,121,384

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

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 September 30,		Nine months ended September 30,	
	2016	2015	**2016**	2015
	$	$	**$**	$
Revenue *[note 17]*	**1,902,748**	1,363,077	**3,738,590**	4,013,221
Cost of sales and services *[note 13]*	**1,031,373**	1,338,630	**3,198,092**	4,060,068
Gross profit	**871,375**	24,447	**540,498**	(46,847)
Expenses (income)				
Selling, general and administrative *[note 13]*	**1,397,638**	1,121,932	**3,446,053**	3,421,520
Research and development	**45,283**	32,743	**106,872**	88,862
Finance income and finance costs *[note 13]*	**145,495**	137,907	**298,277**	286,765
Other income	**-**	(387)	**-**	(1,046)
	1,588,416	1,292,195	**3,851,202**	3,796,101
Net loss and comprehensive loss	**(717,041)**	(1,267,748)	**(3,310,704)**	(3,842,948)
Basic and diluted loss per share *[note 15]*	**(0.01)**	(0.01)	**(0.03)**	(0.05)
Weighted average number of common shares outstanding - basic and diluted *[note 15]*	**99,632,427**	84,831,729	**95,677,147**	84,831,033

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**
Private placement, net of issuance costs *[note 11 (a)]*	**6,131,579**	**1,001,228**	**163,772**	**-**	**-**	**-**	**-**	**1,165,000**
Share issue costs *[note 11 (a) (b)]*	**-**	**(26,279)**	**-**	**-**	**-**	**-**	**-**	**(26,279)**
Broker warrants *[note 11 (a)]*	**-**	**(3,435)**	**3,435**	**-**	**-**	**-**	**-**	**-**
Shares issued for debts *[note 11 (b)]*	**2,060,126**	**412,025**	**-**	**-**	**-**	**-**	**-**	**412,025**
Share-based payments	**-**	**-**	**-**	**532,123**	**-**	**-**	**-**	**532,123**
Transations with owners	**8,191,705**	**1,383,539**	**167,207**	**532,123**	**-**	**-**	**-**	**2,082,869**
Comprehensive loss during the period	**-**	**-**	**-**	**-**	**-**	**-**	**(3,310,704)**	**(3,310,704)**
Balance –September 30, 2016	**101,858,434**	**25,428,311**	**901,211**	**5,845,678**	**572,582**	**24,844**	**(33,384,890)**	**(612,264)**
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	-	-	-	256,188	-	-	-	256,188
Transaction with owners	35,000	(18,894)	(1,278,421)	1,569,154	572,582	-	-	844,421
Comprehensive loss during the period	-	-	-	-	-	-	(3,842,948)	(3,842,948)
Balance – September 30, 2015	84,831,729	22,693,512	1,390,683	4,197,459	572,582	24,844	(28,999,355)	(120,275)

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

PyroGenesis Canada Inc.

Condensed Interim Statements of Cash Flows

(unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	**2016**	2015
	$	$	**$**	$
Cash flows provided by (used in)				
Operating activities				
Comprehensive loss	**(717,041)**	(1,267,748)	**(3,310,704)**	(3,342,948)
Adjustments for:				
Share-based payments	**429,827**	73,056	**532,123**	256,188
Depreciation on property and equipment	**31,311**	41,203	**95,822**	122,604
Adjustment to the fair value of investments	**(14,414)**	-	**(124,414)**	-
Gain on disposal of investments	**(50,000)**	-	**(50,000)**	-
Finance income and finance costs	**159,909**	137,908	**472,691**	286,766
Amortization of intangible assets	**349,268**	349,268	**1,047,805**	1,047,805
	188,860	**(666,313)**	**(1,336,677)**	(2,129,586)
Net change in non-cash operating working capital items *[note 12]*	**(667,853)**	(26,547)	**(449,987)**	103,267
Interest paid	**(149,773)**	(75,094)	**(327,871)**	(162,841)
	(628,766)	(767,954)	**(2,114,536)**	(2,239,160)
Investing activity				
Purchase of property and equipment	-	(1,596)	**-**	(32,935)
Purchase of investments	**(298,500)**	(50,000)	**(298,500)**	(50,000)
Disposal of investments	**50,000**	-	**50,000**	-
	(248,500)	(51,596)	**(248,500)**	(82,935)
Financing activities				
Proceeds from (repayment of) loans	**(113,814)**	(119,906)	**663,100**	(792,626)
Repayment of obligation under capital lease	-	(744)	**-**	(2,213)
Proceeds from issuance of convertible debentures	**-**	-	**-**	2,957,804
Proceeds from issuance of common shares	**1,165,000**	-	**1,165,000**	8,301
Share issue cost	**(26,279)**	-	**(26,279)**	-
Proceeds from issuance of common shares upon exercise of option	**-**	-	**-**	7,350
	1,024,907	(120,650)	**1,801,821**	2,178,616
Net increase (decrease) in cash	**147,641**	(940,200)	**(561,215)**	(93,479)
Cash - beginning of period	**58,512**	1,208,904	**767,368**	362,183
Cash - end of period	**206,153**	268,704	**206,153**	268,704
Supplemental cash flow disclosure				
Non-cash transactions:				
Issuance of broker warrants	**3,435**	-	**3,435**	-
Issuance of common shares for debt transactions	**412,025**	-	**412,025**	-
Other assets received in payments on contracts in progress	**50,000**	-	**50,000**	-
Issuance of convertible debentures in partial settlement of balance of sale	**-**	-	**-**	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 $3,310,704 of losses occurring in 2016 and resulting in an accumulated deficit of $33,384,890 at September 30, 2016. Furthermore, as at September 30, 2016, the Company's current liabilities and expected level of expenses for the next twelve months exceed cash on hand of $206,153. 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 November 22, 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:

	September 30, 2016	December 31, 2015
	$	$
1 – 30 days	88,807	143,316
30 – 60 days	8,512	145,213
61 – 90 days	-	-
Greater than 90 days	13,828	70,656
Total	111,147	359,185
Other receivable	139,000	-
	250,147	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 September 30, 2016 and December 31, 2015.

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

As at September 30, 2016, the Company had five contracts with total billings of $270,159 which were less than total costs incurred and had recognized cumulative revenue of $622,697 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

	September 30, 2016	December 31, 2015
	$	$
Accounts payable trade	846,555	1,196,851
Accrued liabilities	599,412	625,818
Accounts payable - shareholder	111,445	161,933
Accounts payable - trust beneficially owned by a shareholder	269,042	72,279
	1,826,454	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 $975,650 (December 31, 2015 - $2,865,970).

Payments received on contracts in progress were $1,437,441 (December 31, 2015 - $3,464,010) in cash and $50,000 of other assets for 2016.

9. Loans

	September 30, 2016	December 31, 2015
	$	$
Balance of sale - company under common control	432,166	472,166
SR&ED loans (i)	553,100	-
Other loans (ii)	-	-
	985,266	472,166
Current portion	985,266	472,166
	-	-

(i) SR&ED loans are financing in the form of loans with respect to the Company's scientific research and experimental development tax credit ("SR&ED Tax Credits") The principal of the loans are subject to holdback to be disbursed upon reception of notice of assessment, with terms from 9 months and 12 months, bearing interest at 18% per annum and a one-time management fee of 5%. Pursuant to the financing, the Company granted R&D Capital Inc. a security interest and movable hypothec on its assets, with a first rank claim on the refundable portion of its SR&ED Tax Credits for each of the fiscal years ending December 31, 2014, 2015 and 2016.

In 2016, the amount available under the agreements totals $746,600. During the period, the Company received $637,000, net of management fees of $31,850 and repaid the balance $83,900.

(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 was repaid in accordance with the share debt transaction on July 26, 2016 (see Note 11 (b)).

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 was repaid 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 September 30, 2016 have been recorded as follows:

	September 30, 2016	December 31, 2015
	$	$
Issuance	3,140,222	3,140,222
Effective interest accretion	277,001	131,424
Amortization of financing costs	116,418	57,076
Balance, end of period	**3,533,641**	**3,328,722**

11. Shareholders' equity

Issuance of shares

(a) On July 26, 2016, the Company completed a private placement (the "Financing") in which 6,131,579 units were issued at a price of $0.19 per unit, for a gross proceed of $1,165,000. Each unit consists of one common share and one-half of one common share purchase warrant ("Warrant"). Each whole common share purchase 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. Proceeds of the Financing were allocated between common share and Warrant based on their relative fair values. The fair value of the common shares was calculated using the subscription price of the Financing and the value of the Warrants was measured based on the Black-Scholes option pricing model. An amount of $163,772 was allocated to Warrants and was presented as part of the warrant reserve.

The following assumptions under the Black-Scholes option pricing model were used:

Weighted-average exercise price ($)	0.35
Weighted-average issuance date market price ($)	0.25
Expected stock option life (years)	1.5
Expected volatility (%)	90.4
Risk-free interest rate (%)	0.58
Dividend yield (%)	0

The underlying expected volatility was determined by reference to historical data of the Company's share price. No special features inherent to the stock options granted were incorporated into the measurement of fair value.

In connection with the Private Placement, the Company also paid finder fees in the amount of $15,960, other related costs of $7,759 and issued 84,000 compensation warrants which entitle the holder to purchase 84,000 common share units at a price of $0.19. Each units are comprised of one common share and one-half of one common share purchase warrants. Each whole common share purchase 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. The fair value of the 42,000 purchase warrants was estimated at $3,435 using Black-Scholes option pricing model with the above assumptions.

(b) On July 26, 2016, the Company completed a share debt transaction to settle outstanding debt in the amount of $412,025 whereby the Company issued 2,060,126 common shares 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. Share issue cost of $2,560 were paid in cash and recorded as a reduction of equity.

11. Shareholders' equity (continued)

Stock option plan

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

	Nine months ended September 30, 2016	
	Options Issued	**Weighted average exercise price**
		$
Balance – December 31, 2015	**6,406,000**	**0.30**
Options granted	**6,350,000**	**0.18**
Options expired	**(500,000)**	**(0.80)**
Options forfeited	**(525,000)**	**(0.32)**
Balance – September 30, 2016	**11,731,000**	**0.21**

On September 25, 2016, the Company granted 6,350,000 stock options to its board of directors which have a five year term. The stock options are exercisable at $0.18 per share. A total of 3,225,000 of the stock options granted vested on the date of grant, 3,125,000 is scheduled to grant on September 25, 2017.

The stock options were valued using the following Black-Sholes option pricing model input factors:

Number of options granted	6,350,000
Weighted-average exercise price ($)	0.18
Weighted-average grant date market price ($)	0.18
Expected stock option life (years)	5
Expected volatility (%)	-
Risk-free interest rate (%)	0.59
Dividend yield (%)	-
Weighted-average grant date fair value (Black-Sholes value) ($)	0.12

The underlying expected volatility was determined by reference to historical data of the Company's share price. No special features inherent to the stock options granted were incorporated into the measurement of fair value.

As at September 30, 2016, an amount of $482,028 remains to be amortized in future periods (until July 2018) related to the grant of stock options.

11. Shareholders' equity (continued)

Stock option plan (continued)

As at September 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:

Issue date	Number of options	Exercise price	Number of exercisable options (1)	Expiry date
		$		
September 19, 2012	100,000	0.150	100,000	September 19, 2017
September 19, 2012	550,000	0.175	550,000	September 19, 2017
November 19, 2012	2,001,000	0.210	2,001,000	November 19, 2017
May 30, 2013	100,000	0.220	100,000	May 30, 2018
July 15, 2015	30,000	0.360	30,000	July 15, 2020
February 12, 2015	2,600,000	0.300	1,217,000	February 12, 2020
September 25, 2016	6,350,000	0.180	3,225,000	September 25, 2021
	11,731,000	0.212	7,223,000	

(1) At September 30, 2016, the weighted average price of the exercisable options was $0.209.

Share purchase warrants

The following table reflects the activity in warrants during the nine months ended September 30, 2016 and the number of issued and outstanding share purchase warrants at September 30, 2016:

	Number of warrants December 31, 2015	Issued	Number of warrants September 30, 2016	Price per warrant	Expiry date
			$		
Private placement – November 26, 2014 (1)	2,142,857	-	2,142,857	0.26	November 26, 2016
Broker warrants – November 26, 2014	150,000	-	150,000	0.20	November 26, 2017
Broker warrants – March 30, 2015	270,417	-	270,417	0.60	March 30, 2017
Private placement – December 11, 2015	4,417,500	-	4,417,500	0.50	December 11, 2017
Broker warrants– December 11, 2015	45,500	-	45,500	0.20	December 11, 2017
Private placement – July 26, 2016	-	3,065,790	3,065,790	0.35	January 26, 2018
Broker warrants– July 26, 2016	-	42,000	42,000	0.19	January 26, 2018
	7,026,274	3,107,790	10,134,064	0.40	

11. Shareholders' equity (continued)

Share purchase warrants (continued)

(1) On July 26, 2016, the Company amended the terms of common share purchase 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 are subject to accelerated expiry provision and in accordance with the policies of the TSXV 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 10th Premium Trading Day. The expiry date of the warrants remains November 26, 2016.

12. Supplemental disclosure of expenses and cash flow information

Net changes in non-cash components of operating working capital

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	**2016**	2015
	$	$	**$**	$
Decrease (increase) in:				
Accounts receivable	**(150,141)**	44,664	**159,038**	735,572
Sales tax receivable	**22,371**	(57,094)	**208,538**	(31,656)
Costs and profits in excess of billings on un completed contracts	**(223,531)**	(39,693)	**(605,707)**	(655,407)
Inventory	**-**	(794,241)	**-**	(846,241)
Investment tax credits receivable	**(16,354)**	181,035	**(122,066)**	58,750
Prepaid expenses	**(46,387)**	(179,652)	**14,865**	(135,691)
Increase (decrease) in:				
Accounts payable and accrued liabilities	**(11,002)**	(122,775)	**31,598**	(238,087)
Billings in excess of costs and profits on uncompleted contracts	**(242,809)**	941,209	**(136,253)**	1,216,027
	(667,853)	(26,547)	**(449,987)**	103,267

13. Other information

The aggregate amortization of intangible assets expense for the three and the nine months ended September 30, 2016 was $349,268 and $1,047,805, respectively (2015 - $349,268 and $1,047,805), and is recorded in cost of sales and services.

Depreciation on property and equipment amounted to $31,311 and $95,822 for the three and the nine months ended September 30, 2016 respectively (2015 - $41,203 and $122,604) and is expensed to selling, general and administrative. Employee benefits totaled $2,033,154 and $3,153,459 in the three and the nine months ended September 30, 2016 respectively (2015 - $1,096,883 and $3,238,173) and included share-based compensation of $429,827 and $532,123 (2015 - $73,056 and $256,188).

Financing income and finance costs include the following items:

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	**2016**	2015
	$	$	**$**	$
Finance income				
Adjustment to the fair value of investments	14,414	-	124,414	-
Gain on disposal of investments	-	-	50,000	-
	14,414	-	174,414	-
Finance costs				
Interest on balance of sale –company under common control	-	94	-	12,841
Interest on convertible debentures	75,000	75,000	225,000	150,000
Accretion of convertible debentures	50,189	43,791	145,576	86,114
Amortization of financing cost	20,048	19,022	59,343	37,810
Interest on SR&ED loan	14,672	-	42,772	-
	159,909	137,907	472,691	286,765
Net finance (income) and finance expenses	145,495	137,907	298,277	286,765

14. Related party transactions

During the three and the nine months ended September 30, 2016, rent was charged by a trust beneficially owned by a shareholder of the Company in the amount of $47,765 and $143,091 respectively (2015 - $47,149 and $134,832). A balance due of $269,042 (December 31, 2015 - $72,279) is included in accounts payable and accrued liabilities.

During the three and the nine months ended September 30, 2016, interest on balance of sale was charged by a company under common control in the amount of $Nil (2015 - $94 and $12,841). 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 nine months ended September 30, 2016, interest on the convertible debentures was charged by a shareholder of the Company in the amount of $14,156 and $42,469 (2015 - $14,156 and $28,312 for both period respectively).

During the three and the nine months ended September 30, 2016, fees of $23,000 and $76,000 respectively were charged for services rendered by the independent directors who are members of the Company’s Board of

Directors (2015 - $32,000 and $74,000). A balance of $56,000 (December 31, 2015 – $Nil) is included in accounts payable and accrued liabilities.

14. Related party transactions (continued)

During the three and the nine months ended September 30, 2016, fees of $Nil and $47,000 respectively, were charged for professional services rendered by a company controlled by a director of the Company (2015 - $24,541 and $97,055 for both period respectively).

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 September 30, 2016, total compensation to key management consisted of the following:

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	**2016**	2015
	$	$	**$**	$
Salaries	**127,885**	176,313	**448,013**	439,874
Pension contributions	**2,005**	2,005	**5,895**	5,918
Other benefits	**10,343**	14,576	**31,233**	35,113
Total compensation	**140,233**	192,894	**485,141**	480,905

A balance of $134,055 (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 nine months ended September 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 September 30, 2016, the following items are denominated in foreign currencies:

	US $	CDN $
Cash	25,941	28,992
Accounts receivable	72,817	102,634
Accounts payable and accrued liabilities	(168,234)	(220,589)
Total	(69,476)	(88,963)

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	625,893

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 September 30, 2016, if the US Dollar changes by 10% against the Canadian dollar with all other variables held constant, the impact on after-tax gain for the nine months ended September 30, 2016 would have been $8,896 (December 31, 2015 – $63,000).

Credit concentration

As at September 30, 2016, four customers accounted for 66% (2015 – three customers for 79%) of revenues from operations and one customer accounted for 79% (December 31, 2015 – three customers for 95%) 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 September 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 September 30, 2016:

	Total	6 months or less	6 to 12 months	1-2 years
	$	$	$	$
Accounts payable and accrued liabilities	**1,826,454**	**1,826,454**	**-**	**-**
Loans	**1,005,807**	**364,500**	**188,600**	**452,707**
Convertible debentures	**4,450,000**	**150,000**	**150,000**	**4,150,000**
	7,282,261	**2,340,954**	**338,600**	**4,602,707**

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 September 30,		Nine months ended September 30,	
	2016	2015	**2016**	2015
	$	$	**$**	$
Revenue from external customers				
Canada	**1,078,555**	425,039	1,332,473	1,827,622
United States	**751,268**	281,826	1,869,213	582,158
Europe	**43,250**	-	75,404	-
Asia	**33,227**	56,166	379,662	61,194
Mexico	**(3,552)**	600,046	81,838	1,542,247
	1,902,748	1,363,077	**3,738,590**	4,013,221

17. Segment information (continued)

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

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
	$	$	$	$
Sales of goods under long-term contracts	**616,646**	908,162	1,045,855	2,781,888
Services	**1,288,102**	454,915	2,692,735	1,231,333
	1,902,748	1,363,077	3,738,590	4,013,221