

PyroGenesis Canada Inc.

Condensed Interim Financial Statements

Three months ended March 31, 2019 and 2018

(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, 2019

PyroGenesis Canada Inc.

Condensed Interim Statements of Financial Position

(unaudited)

	March 31, 2019	December 31, 2018
	\$	\$
Assets		
<i>Current assets</i>		
Cash	141,850	644,981
Accounts receivable [note 7]	546,292	631,152
Costs and profits in excess of billings on uncompleted contracts and projects [note 8]	166,313	307,832
Investment tax credits receivable	342,816	633,348
Deposits	465,468	584,646
Prepaid expenses	95,525	66,321
Total current assets	1,758,264	2,868,280
<i>Non-current assets</i>		
Inventories	401,599	382,832
Deposits and investments [note 9]	2,445,544	1,745,607
Property and equipment	3,276,943	3,202,882
Right of use assets [note 3]	4,475,118	-
Intangible assets	601,604	559,874
Total assets	12,959,072	8,759,475
Liabilities		
<i>Current liabilities</i>		
Accounts payable and accrued liabilities [note 10]	2,452,917	2,357,607
Billings in excess of costs and profits on uncompleted contracts and projects [note 11]	4,849,006	4,352,410
Term loans [note 12]	257,471	247,200
Current portion of long-term debt	-	12,491
Current portion of lease liabilities	232,114	-
Convertible debentures [note 13]	2,615,038	-
Total current liabilities	10,406,546	6,969,708
<i>Non-current liabilities</i>		
Long-term debt	-	268,576
Lease Liabilities	4,340,723	-
Convertible debentures [note 13]	-	2,527,241
Total liabilities	14,747,269	9,765,525
Shareholders' deficiency [note 14]		
Common shares and warrants	42,925,748	42,863,456
Contributed surplus	6,829,758	6,795,274
Equity portion of convertible debentures [note 13]	401,760	401,760
Deficit	(51,945,463)	(51,066,540)
Total shareholders' deficiency	(1,788,197)	(1,006,050)
Total liabilities and shareholders' deficiency	12,959,072	8,759,475

Going concern disclosure, related party transactions, contingent liabilities, subsequent events [notes 1(b), 18, 20, 23]

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)

Years ended December 31,

	Three months ended March 31,	
	2019	2018
	\$	\$
Revenues [note 6]	736,443	2,060,602
Cost of sales and services [note 16]	644,285	1,354,696
Gross Profit	92,158	705,906
Expenses (income)		
Selling, general and administrative [note 16]	1,330,005	1,358,369
Research and development	95,774	52,498
Net finance costs [note 17]	(454,698)	323,834
	971,081	1,734,701
Net loss and comprehensive loss	(878,923)	(1,028,795)
Basic and diluted loss per share	(0.01)	(0.01)
Weighted average number of common shares - basic and diluted	133,595,204	116,349,569

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

PyroGenesis Canada Inc.

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

(unaudited)

	Number of Class A common shares	Class A common shares and warrants	Contributed Surplus	Equity portion of convertible debentures	Deficit	Total
		\$	\$	\$	\$	\$
Balance - December 31, 2018	133,501,051	42,863,456	6,795,274	401,760	(51,066,540)	(1,006,050)
Cash received on private placement (note 14)	97,400	62,292	-	-	-	62,292
Share-based payments	-	-	34,484	-	-	34,484
Net loss and comprehensive loss	-	-	-	-	(878,923)	(878,923)
Balance – March 31, 2019	133,598,451	42,925,748	6,829,758	401,760	(51,945,463)	(1,788,197)
Balance - December 31, 2017	112,698,081	30,336,865	6,147,638	572,582	(43,200,708)	(6,143,623)
Private placement	4,871,429	3,410,000	-	-	-	3,410,000
Share issue expenses	-	(128,790)	-	-	-	(128,790)
Shares issued upon exercise of warrants	1,797,500	629,125	-	-	-	629,125
Shares issued upon exercise of stock options	245,000	122,990	(49,490)	-	-	73,500
Share-based payments	-	-	129,963	-	-	129,963
Net loss and comprehensive loss	-	-	-	-	(1,028,795)	(1,028,795)
Balance – March 31, 2018	119,612,010	34,395,034	6,203,267	692,424	(44,229,503)	(2,938,778)

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

PyroGenesis Canada Inc.

Condensed Interim Statements of Cash Flows

(unaudited)

	<u>Three months ended March 31,</u>	
	2019	2018
	\$	\$
Cash flows provided by (used in)		
Operating activities		
Net loss	(878,923)	(1,028,795)
Adjustments for:		
Share-based payments	34,484	129,963
Depreciation on property and equipment	48,149	29,717
Depreciation of right-of-use assets	109,672	-
Amortization of intangibles assets	4,779	-
Finance costs	251,498	104,834
Change in fair value of investments	(706,196)	219,000
	(1,136,537)	(545,281)
Net change in non-cash operating working capital items <i>[note 15]</i>	1,154,794	(637,926)
Interest paid	(155,569)	(489)
	(137,312)	(1,183,696)
Investing activities		
Additions to inventories	(18,767)	-
Purchase of property and equipment	(115,909)	(629,289)
Additions to intangible assets	-	(54,310)
Reimbursement of deposit	6,259	-
	(128,417)	(683,599)
Financing activities		
Repayment of term loans	-	(290,200)
Repayment of R&D loans <i>[note 12]</i>	(247,200)	-
Repayment of capital lease obligations	-	(2,080)
Repayment of lease liabilities	(52,494)	-
Proceeds from issuance of shares – Private placement <i>[note 14]</i>	62,292	2,080,001
Proceeds from issuance of shares upon exercise of warrants <i>[note 14]</i>	-	629,125
Proceeds from issuance of shares upon exercise of stock options <i>[note 14]</i>	-	73,500
Share issue costs <i>[note 19]</i>	-	(128,790)
Net proceeds from issuance of convertible debentures <i>[note 13]</i>	-	1,467,881
	(237,402)	3,829,437
Net increase (decrease) in cash	(503,131)	1,962,142
Cash - beginning of period	644,981	622,846
Cash - end of period	141,850	2,584,988

Supplemental cash flow disclosure

Non-cash transactions:

Purchase of property and equipment included in accounts payables	39,277	-
Purchase of intangibles assets included in accounts payables	46,509	-

The accompanying notes form an integral part of the condensed interim financial statements

PyroGenesis Canada Inc.

Notes to the Condensed Interim Financial Statements

For the periods ended March 31, 2019 and 2018

(unaudited)

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 2015, the Company received approval to trade 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, resulting in an accumulated deficit of \$51,945,463 as at March 31, 2019. Furthermore, as at March 31, 2019, the Company's current liabilities and expected level of expenses for the next twelve months exceed cash on hand of \$141,850. 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 realize 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 financial statements of financial position classifications used. Such adjustments could be material.

PyroGenesis Canada Inc.

Notes to the Condensed Interim Financial Statements

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2. Basis of preparation

(a) Statement of compliance

These condensed interim financial statements have been prepared in accordance with International Financial Reporting Standard ("IFRS") as issued by the International Accounting Standards Board ("IASB"). These condensed interim financial statements do not include all of the necessary information required for full annual financial statements in accordance with IFRS and should be read in conjunction with the Company's audited financial statements for the year ended December 31, 2018.

These condensed interim financial statements were approved and authorized for issuance by the Board of Directors on May 28, 2019.

(b) Functional and presentation currency

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

(c) Basis of measurement

These condensed interim financial statements have been prepared on the historical cost basis except for the 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, 2018. 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, 2019.

a) IFRS 16 - Leases

In January 2016, the IASB released IFRS 16, Leases, which replaced the previous leases standard, IAS 17, Leases, and related interpretations. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, the customer (lessee) and the supplier (lessor). IFRS 16 eliminates the classification of leases as either operating leases or finance leases, introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value.

The Company has adopted IFRS 16 using the modified retrospective method of adoption, with the effect of initially applying this standard recognized at the date of initial application, i.e. January 1, 2019. Accordingly, the cumulative effect of initially applying IFRS 16, if any, has been recognized as an adjustment to the opening balance of retained earnings as at January 1, 2019 and the comparative information presented for 2018 has not been restated, i.e. it is presented, as previously reported, under IAS 17 and related interpretations.

i. Transition options and practical expedients

The Company has elected to apply the following transition options and practical expedients available under

PyroGenesis Canada Inc.

Notes to the Condensed Interim Financial Statements

For the periods ended March 31, 2019 and 2018

(unaudited)

3. Changes in significant accounting policies (continued)

a) IFRS 16 – Leases (continued)

IFRS 16:

- Lease definition: to grandfather the assessment of which transactions are leases on the date of initial application. Accordingly, the Company applied IFRS 16 only to contracts that were previously identified as leases under IAS 17, Leases, and IFRIC 4, Determining whether an Arrangement contains a Lease, and applied the definition of leases under IFRS 16 only to contracts entered on or after the date of initial application;
- Impairment and onerous leases: to rely on the Company's previous assessment of whether leases are onerous in accordance with IAS 37, Provisions, Contingent Liabilities and Contingent Assets, immediately before the date of initial application as an alternative to performing an impairment review;
- Initial direct costs: to exclude initial direct costs from the measurement of the right-of-use asset at the date of initial application;
- Use of hindsight: to use hindsight, for example, in determining the lease term of contracts that contain options to extend or terminate the lease on the date of initial application; and
- Non-lease components: to not separate lease components from any associated non-lease components.

The Company has elected not to apply the following transition options and practical expedients available under IFRS 16:

- Short-term leases and leases of low-value items recognition exemptions;
- Leases with a short remaining term; and
- Discount rates.

ii. Impact of adopting IFRS 16

The most significant impact as a result of adopting IFRS 16 related to the accounting for the Company's operating leases, as the nature of expenses related to most of the Company's leases changed as IFRS 16 replaced the straight-line operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities.

Under IAS 17, the Company classified each of its leases at the inception date as either a finance lease or an operating lease, based on the extent to which risks and rewards of ownership were transferred to the Company. Lease payments related to the Company's operating leases were recognized as rent expense in the income statements on a straight-line basis over the lease term and presented as part of cash flows from operating activities in the statements of cash flows.

At transition, for leases classified as operating leases under IAS 17, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Company's incremental borrowing rate as at January 1, 2019. Right-of-use assets were measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

The carrying amount of the lease assets and lease liabilities that were classified as finance leases and measured applying IAS 17 immediately before the date of initial application were reclassified to the right-of-use assets and the lease liabilities at the date of initial application.

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Notes to the Condensed Interim Financial Statements

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(unaudited)

3. Changes in significant accounting policies (continued)

a) IFRS 16 – Leases (continued)

The following table summarizes the impacts of adopting IFRS 16 on the Company's consolidated statement of financial position as at January 1, 2019:

	As at January 1, 2019
	\$
Lease liabilities	4,953,604
Reversal of deferred lease obligations and accrued liabilities	(41,789)
Assets under finance lease in accordance with IAS 17 Reversal of related accrued assets and liabilities	49,530
Right-of-use assets	4,601,345

iii. Reconciliation of operating lease commitments to lease liabilities recognized

When measuring lease liabilities, the Company discounted lease payments using its incremental borrowing rate as at January 1, 2019. The weighted average incremental borrowing rate applied as at January 1, 2019 was 6.60%.

The lease liabilities as at January 1, 2019 can be reconciled to the operating lease commitments as at December 31, 2018 as follows:

	\$
Operating leases as at December 31, 2018	1,716,656
Extension option reasonably certain to be exercised	1,463,963
Purchase option reasonably certain to be exercised	2,550,000
Exemption for short-term leases	(7,869)
Variable lease based on an index	9,276
	5,732,026
Accretion using the incremental borrowing interest rate as at January 1, 2019	(1,138,423)
	4,593,604
Finance leases and measured applying IAS 17	31,728
Lease liabilities as at January 1, 2019	4,625,332

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(unaudited)

3. Changes in significant accounting policies (continued)

a) IFRS 16 – Leases (continued)

iv. Significant accounting policies

The detail of the new significant accounting policies in relation to the Company's leases are set out below.

Leases

At inception, the Company assesses whether a contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Company recognizes a right-of-use asset and a lease liability at the commencement date of the lease, i.e. the date the underlying asset is available for use.

Right-of-use assets

Right-of-use assets are measured at cost, less any accumulated depreciation and accumulated impairment losses, and adjusted for any remeasurement of lease liabilities. Cost of right-of-use assets is comprised of:

- the initial measurement amount of the lease liabilities recognized;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred; and
- an estimate of costs to dismantle and remove the underlying asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease contract.

Right-of-use assets are depreciated on a straight-line basis over the lesser of i) the estimated useful life of the underlying assets when it is reasonably certain that a purchase option will be exercised; or ii) the lease term. Right-of-use assets are assessed for impairment whenever there is an indication that the right-of-use assets may be impaired.

Lease liabilities

Lease liabilities are initially measured at the present value of the lease payments that are not paid at the commencement date over the lease term. The present value of the lease payments is determined using the lessee's incremental borrowing rate at the commencement date if the interest rate implicit in the lease is not readily determinable. The incremental borrowing rate is a function of the lessee's incremental borrowing rate, the nature of the underlying asset, the location of the asset, the length of the lease and the currency of the lease contract. Generally, the Company uses the lessee's incremental borrowing rate for the present value. At the commencement date, lease payments generally include fixed payments, less any lease incentives receivable, variable lease payments that depend on an index (e.g. based on inflation index) or a specified rate, and payments of penalties for terminating the lease, if the lease term reflects the lessee exercising the option to terminate the lease. Lease payments also include amounts expected to be paid under residual value guarantees and the exercise price of a purchase option if the Company is reasonably certain to exercise that option.

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Notes to the Condensed Interim Financial Statements

For the periods ended March 31, 2019 and 2018

(unaudited)

3. Changes in significant accounting policies (continued)

a) IFRS 16 – Leases (continued)

iv. Significant accounting policies

Variable lease payments that do not depend on an index or a specified rate are not included in the measurement of lease liabilities but instead are recognized as expenses in the period in which the event or condition that triggers the payment occurs.

After the commencement date, the carrying amount of lease liabilities is increased to reflect the accretion of interest and reduced to reflect lease payments made. In addition, the carrying amount of lease liabilities is remeasured when there is a change in future lease payments arising from a change in an index or specified rate, if there is a modification to the lease terms and conditions, a change in the estimate of the amount expected to be payable under residual value guarantee, or if the Company changes its assessment of whether it will exercise a termination, extension or purchase option. The remeasurement amount of the lease liabilities is recognized as an adjustment to the right-of-use asset, or in the profit and loss statement when the carrying amount of the right-of-use asset is reduced to zero.

Classification and presentation of lease-related expenses

Depreciation charge for right-of-use assets, expenses related to variable lease payments not included in the measurement of lease liabilities and loss (gain) related to lease modifications are allocated in the Company's profit and loss statement based on their function within the Company, while interest expense on lease liabilities is presented within finance costs.

Cash flows classification

Lease payments related to the principal portion of the lease liabilities are classified as cash flows from financing activities while lease payments related to the interest portion of the lease liabilities are classified as interest paid within cash flows from operating activities. Lease incentives received are classified as cash flows from investing activities. Variable lease payments not included in the measurement of lease liabilities are classified as cash flows from operating activities.

Significant judgment in determining the lease term of contracts with extension options and termination options

The Company determines the lease term as the non-cancellable period of the lease, together with any periods covered by an option to extend the lease, if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. The Company applies judgment in assessing whether it is reasonably certain to exercise its options to extend its leases or to not exercise its options to terminate its leases, by considering all facts and circumstances that create an economic incentive to exercise an extension option or not to exercise a termination option. The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the Company.

b) Annual Improvements to IFRS Standards 2015–2017 Cycle

In December 2017, the IASB published Annual Improvements to IFRS Standards 2015–2017 Cycle, which includes amendments to the following:

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Notes to the Condensed Interim Financial Statements

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(unaudited)

3. Changes in significant accounting policies (continued)

- Income tax consequences under IAS 12, Income Taxes, of payments on financial instruments classified as equity.
- Borrowing costs eligible for capitalization under IAS 23, Borrowing Costs.

The amendments are effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted. The Company adopted these amendments in its financial statements for the annual period beginning on January 1, 2019. The adoption of these amendments did not have a material impact on the Company's financial statements.

4. Future accounting changes

New standards and amendments to existing standards have been issued by the IASB, which are mandatory but not yet effective for the three months ended March 31, 2019. Management does not expect that any of the new standards and amendments to existing standards issued but not yet effective would have a material impact on the Company's financial statements.

5. Significant accounting judgments, estimates and assumptions

The significant judgments, estimates and assumptions applied by the Company's 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, 2018.

6. Revenues

The Company's revenues from long-term contracts and sales of goods are generated primarily from PUREVAP™ related sales of \$94,077 (2018 - \$736,660), Torch related sales of \$139,813 (2018 - \$Nil), and the development and support related to systems supplied to the U.S. Military \$210,667 (2018 - \$527,444).

Refer to note 22 for sales by geographic area and by product line.

Transaction price allocated to remaining performance obligations

As at March 31, 2019, revenue expected to be recognized in the future related to performance obligations that are unsatisfied (or partially satisfied) at the reporting date is \$8,474,081. Revenue will be recognized as the Company satisfies its performance obligations under long-term contracts, which is expected to occur over the next 3 years.

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Notes to the Condensed Interim Financial Statements

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7. Accounts receivable

Details of accounts receivable were as follows:

	March 31, 2019	December 31, 2018
	\$	\$
1 – 30 days	1,184	281,984
31 – 60 days	135,616	178,667
61 – 90 days	143,017	86,567
Greater than 90 days	168,100	16,613
Total trade accounts receivable	447,917	563,831
Other receivables	98,375	67,321
	546,292	631,152

There is no allowance for expected credit losses recorded as at March 31, 2019 and December 31, 2018.

8. Costs and profits in excess of billings on uncompleted contracts and projects

As at March 31, 2019, the Company had three uncompleted contracts and projects with total billings of \$52,855 which were less than total costs incurred and had recognized cumulative revenue of 219,168 since those contracts and projects began. This compares with five contracts with total billings of \$1,087,339 which were less than total costs incurred and had recognized cumulative revenue of \$1,395,171 as at December 31, 2018.

Changes in costs and profits in excess of billings on uncompleted contracts during the three months ended March 31, 2019 are explained by \$306,070 recognized at the beginning of the year being transferred to accounts receivable, and \$166,313 resulting from changes in the measure of progress.

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(unaudited)

9. Deposits and investments

	March 31, 2019	December 31, 2018
	\$	\$
Deposits	45,232	51,491
Investments:		
Beauce Gold Fields ("BGF") shares – level 1	169,256	102,579
HPQ Silicon Resources Inc. ("HPQ") shares - level 1	1,921,500	1,281,000
HPQ warrants – level 3	309,556	310,537
	2,445,544	1,745,607

Investments in HPQ (TSXV: HPQ) comprise 21,350,000 common shares (21,350,000 - 2018) and 17,750,000 warrants (17,750,000 - 2018). 1,500,000 warrants have an exercise price of \$0.25 with an expiry date of November 21, 2020 and the remaining 16,250,000 warrants have an exercise price of \$0.17 with an expiry date of August 21, 2021.

Investment in BGF (TSXV: BGF) consists of 1,025,794 of common shares. The 1,025,794 common shares of BGF were received in December 2018 as dividend in kind from a spinoff of HPQ.

16,250,000 common shares of HPQ and 16,250,000 warrants of HPQ were purchased in cash (\$1,950,000) in 2018. 2,500,000 common shares and 2,500,000 warrants were received in 2017 in lieu of payment of services rendered by the Company to HPQ. At the transaction dates, these non-monetary transactions were measured based on the fair value of the common shares and warrants received for a total amount of \$320,000. A gain from initial recognition of the warrants of \$24,017 (\$62,214 – 2017) has been deferred off balance sheet until realised.

	("BGF") shares – level 1		HPQ warrants – level 3		("HPQ") shares - level 1	
	Quantity	\$	Quantity	\$	Quantity	\$
Balance, December 31, 2017	-	-	3,300,000	-	5,100,000	561,000
Additions	1,025,794	102,579	16,250,000	650,000	16,250,000	1,300,000
Expired warrants	-	-	(800,000)	-	-	-
Change in the fair value	-	-	-	(339,463)	-	(580,000)
Balance, December 31, 2018	1,025,794	102,579	18,750,000	310,537	21,350,000	1,281,000
Additions	-	-	-	-	-	-
Expired warrants	-	-	(1,000,000)	-	-	-
Change in the fair value	-	66,677	-	(981)	-	640,500
Balance, March 31, 2019	1,025,794	169,256	17,750,000	309,556	21,350,000	1,921,500

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10. Accounts payable and accrued liabilities

	March 31, 2019	December 31, 2018
	\$	\$
Accounts payable	1,215,640	1,072,257
Accrued liabilities	1,070,968	1,080,128
Accounts payable to the controlling shareholder	166,309	205,222
	2,452,917	2,357,607

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

The amount to date of costs incurred and recognized profits less recognized losses for construction projects in progress amounted to \$4,297,280 (2018 - \$3,517,534).

Payments to date received were \$7,066,286 and \$2,080,000 of deposits on contract in progress (2018 - \$5,919,944 in cash and \$1,950,000 of other assets).

Changes in billings in excess of costs and profits on uncompleted contracts during the three months ended March 31, 2019 are explained by \$719,125 recognized as revenue, and an increase of \$496,596 resulting from cash received excluding amounts recognized as revenue.

12. Term loans

	Promissory notes payable to the controlling shareholder and CEO ¹	2017 SR&ED Tax Credits loan ²	Total
	\$	\$	\$
Balance, December 31, 2017	-	-	-
Addition	295,000	175,462	470,462
Fair value adjustment	(58,607)	-	(58,607)
Accretion	12,946	-	12,946
Lender fees and interest paid in advance	-	71,738	71,738
Balance, December 31, 2018	249,339	247,200	496,539
Repayment	-	(247,200)	(247,200)
Addition	-	-	-
Accretion	8,132	-	8,132
Balance at March 31, 2019	257,471	-	257,471

¹ maturing March 30, 2020 bearing interest rate of 6% (discount market interest rate of 20%),

² matured September 30, 2018 bearing interest rate of 18% (effective interest rate 23%), repaid February 2019.

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13. Convertible debentures

On April 2, 2018, the Company completed a \$3,000,000 non-brokered private placement of 9.5% secured convertible debentures (the "2018 Convertible Debenture"). The 2018 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 2018 convertible debentures may be redeemed before maturity, in whole at anytime or in part from time to time at the option of the Company. In the event the Company elects to redeem the debentures before the maturity date, the Company shall be required to pay all interest that otherwise would have accrued on the debentures up to the maturity date. The 2018 convertible debentures are secured by a hypothec on the universality of all of the property, rights and assets of the Company, present and future, movable and immovable, corporeal and incorporeal.

The 2018 Convertible Debenture is a compound financial instrument and the total proceeds of the issuance was allocated between a liability for the debenture and an equity component for the conversion feature. The fair value of the debt liability component at inception was determined using estimated future cash flows discounted using a market interest rate of 20%. The residual amount representing the value of the conversion option equity component was classified in the shareholders' (Deficiency) Equity.

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 \$315,702 and have been allocated between the liability and equity components. The effective interest rate of the liability component is 20.23%.

At the issuance date, the 2018 Convertible Debenture was recorded as follows:

	\$
Debt component, net of transactions cost of \$268,364	2,282,538
Conversion option recognized in equity, net of transaction cost of \$47,338	401,760
Net proceeds	2,684,298

	March 31, 2019	December 31, 2018
	\$	\$
Balance, December 31, 2017	-	3,916,549
Effective interest accretion	-	83,451
	-	4,000,000
Repayment of 2015 Convertible Debenture in cash	-	(3,245,000)
Repayment of 2015 Convertible Debenture in shares	-	(755,000)
	-	-
Issuance of 2018 Convertible Debenture	2,282,538	2,282,538
Effective interest accretion	332,500	244,703
Balance, end of year	2,615,038	2,527,241

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14. Shareholders' deficiency

Common shares and warrants

Authorized:

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

Issuance of shares

On January 7, 2019, the Company received an additional subscription and sold an additional aggregate amount of 97,400 units of the Company at a price of \$0.58 per unit for gross proceeds of \$56,492. An amount of \$5,800 from the initial subscriptions of the Private Placement dated December 17, 2018 was received on December 23, 2018 and deposited on January 3, 2019. As a result of the initial subscriptions and subsequent subscription, the Company issued and sold pursuant to the Private Placement dated December 17, 2018 a total of 2,244,367 units for gross proceeds of \$1,301,733. 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 December 18, 2020.

The following table sets out the activity in stock options during the three months ended March 31, 2019:

	Number of options	Weighted average exercise price \$
Balance – December 31, 2018	9,922,000	0.37
Granted	-	-
Exercised	-	-
Forfeited	-	-
Balance, March 31, 2019	9,922,000	0.37

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14. Shareholders' deficiency (continued)

As at March 31, 2019, 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:

	Number of stock options March 31, 2019	Exercise price per option (1)	Expiry date
		\$	
February 12, 2015	1,965,000	0.30	Feb 12, 2020
September 25, 2016	3,875,000	0.18	Sep 25, 2021
October 20, 2016	32,000	0.18	Oct 20, 2021
October 25, 2016	100,000	0.19	Oct 25, 2021
November 3, 2017	2,600,000	0.58	Nov 3, 2022
February 9, 2018	200,000	0.60	Feb 9, 2023
April 3, 2018	500,000	0.70	Oct 3, 2019
May 10, 2018	250,000	0.52	May 10, 2023
July 3, 2018	300,000	0.51	July 3, 2019
October 29, 2018	100,000	0.52	Oct 29, 2023
	9,922,000	0.37	

Share purchase warrants

The following table reflects the activity in warrants for the three months ended March 31, 2019 and the number of issued and outstanding share purchase warrants at December 31, 2018:

	Number of warrants December 31, 2018	Issued	Exercised	Number of warrants March 31, 2019	Price per warrant	Expiry date
					\$	
Issuance of units – February 9, 2018	4,871,429		-	4,871,429	1.25	Aug 9, 2019
Broker warrants – February 9, 2018	88,000		-	88,000	1.25	Aug 9, 2019
Issuance of units – April 19, 2018	3,108,333		-	3,108,333	0.85	Apr 19, 2020
Issuance of broker warrants – April 19, 2018	74,000		-	74,000	0.85	Apr 19, 2020
Issuance of units – April 20, 2018	3,385,715		-	3,385,715	0.85	Apr 20, 2020
Issuance of units – September 28, 2018	3,448,276		-	3,448,276	0.58	Jan 28, 2021
Issuance of units – October 19, 2018	1,500,750		-	1,500,750	0.58	Feb 13, 2021
Issuance of units – December 17, 2018	2,146,967	97,400	-	2,244,367	0.85	Dec 18, 2020
	18,623,470	97,400	-	18,720,870	0.88	

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15. Supplemental disclosure of cash flow information

Net changes in non-cash components of operating working capital

	2019	2018
	\$	\$
Decrease (increase) in:		
Accounts receivable	84,860	(193,283)
Costs and profits in excess of billings on uncompleted contracts	141,519	(192,606)
Investment tax credits receivable	290,532	164,484
Deposits	119,178	(300,816)
Prepaid expenses	(29,204)	51,254
Increase (decrease) in:		
Accounts payable and accrued liabilities	51,313	405,003
Billings in excess of costs and profits on uncompleted contracts	496,596	2,505,695
	1,154,794	2,439,731

16. Other information

The aggregate amortization of intangible assets expense for the three months ended March 31, 2019 was \$4,779 (2018 - \$60,326) and was recorded in cost of sales and services.

Depreciation on property and equipment amounted to \$48,149 and depreciation on right of use assets amounted to \$109,672 for the three months ended March 31, 2019 (2018 - \$29,717 and \$Nil respectively) and is recorded in selling, general and administrative. Employee benefits totaled \$1,463,634 in the three months ended March 31, 2019 (2018 - \$1,343,706) and include share-based compensation of \$34,484 (2018 - \$129,963).

The Company has been awarded various grants during the three months period, which were recognized when they became receivable. The grants, received in Q1, 2019, are unconditional and amounted to \$132,014 (2018 - \$10,894). An amount of \$109,976 (2018 - \$Nil) was recorded as a reduction to the related expenses in research and development and an amount of \$22,038 (2018 - \$10,894) was recorded as a reduction to the related expenses in selling, general and administrative.

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17. Net finance costs:

	Three months ended March 31,	
	2019	2018
	\$	\$
Finance costs		
Interest accretion of convertible debentures	161,048	83,451
Interest on lease liabilities	73,224	-
Interest accretion on related party debts	8,132	-
Change in the fair value of investments	(706,196)	219,000
Interest on term loans	-	20,894
Interest on long-term debts	-	489
Other interest expenses	9,094	-
Net finance costs	(454,698)	323,834

18. Related party transactions

During the three months ended March 31, 2019, the Company concluded the following transactions with related parties:

Lease payments of \$66,679 were paid to a trust whose beneficiary is the controlling shareholder and CEO (rent and property taxes of \$51,946 were charges in 2018). A balance due of \$1,755,477 (2018 - \$91,550) is included in lease liabilities at March 31, 2019.

An amount of \$240,159 was paid as a deposit for rent to a trust whose beneficiary is the controlling shareholder and CEO of the Company (December 31, 2018 – \$240,519), of this amount \$112,034 is included in prepaids.

An amount of \$10,213 was owed by a trust whose beneficiary is the controlling shareholder and CEO of the Company (December 31, 2018 – \$10,213) of this amount \$10,213 is included in accounts receivable.

A balance due to the controlling shareholder and CEO of the Company amounted to \$166,309 (December 31, 2018 - \$193,842) for expense report, salary and vacation payables and is included in accounts payable and accrued liabilities as at March 31, 2019.

An amount of \$4,364 (December 31, 2018 - \$7,427), of interest payable and an accretion amount of \$8,132 (December 31, 2018 - \$12,946), were accrued on the loan of \$295,000 from the controlling shareholder and CEO of the Company and are included in accounts payable and accrued liabilities.

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18. Related party transactions (continued)

The key management personnel of the Company are the members of the Board of Directors and certain officers. Total compensation to key management consisted of the following:

	2019	2018
	\$	\$
Salaries –officers	102,000	124,000
Pension contributions	2,040	2,040
Fees – Board of Directors	24,000	-
Other benefits – officers	4,391	3,381
Total compensation	132,431	139,421

A balance of \$40,252 of key management compensation, of the amounts noted above, is included in accounts payable and accrued liabilities as at March 31, 2019 (December 31, 2018 - \$127,748).

19. Financial instruments

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

Foreign currency risk

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

As at March 31, 2019 the following items are denominated in US dollars:

	March 31, 2019 CDN	December 31, 2018 CDN
	\$	\$
Cash	35,427	4,472
Accounts receivable	408,251	527,761
Accounts payable and accrued liabilities	(260,673)	(240,866)
Total	183,005	291,367

Foreign currency risk (continued)

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.

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19. Financial instruments (continued)

Sensitivity analysis

At March 31, 2019, if the US Dollar changes by 10% against the Canadian dollar with all other variables held constant, the impact on pre-tax gain or loss for the year ended March 31, 2019 would have been \$18,000 (December 31, 2018 – \$29,000).

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, 2019 represents the carrying amount of cash, accounts receivable and deposits.

Credit concentration

During the year ended March 31, 2019, three customers accounted for 61% (March 31, 2018 – three customers for 88%) of revenues from operations.

	Three months ended March 31, 2019		Three months ended March 31, 2018	
	Revenues	% of total revenues	Revenues	% of total revenues
	\$	%	\$	%
Customer 1	210,667	29	527,444	26
Customer 2	139,813	19	557,626	27
Customer 3	94,077	13	736,660	35
Total	444,557	61	1,821,730	88

Two customers accounted for 85% (December 31, 2018 – one customer for 85%) of trade accounts receivable with amounts owing to the Company of \$381,896 (2018 - \$478,699), 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.

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19. Financial instruments (continued)

Fair value of financial instruments

Financial instruments are comprised of cash, accounts receivable, investments, deposits, accounts payable and accrued liabilities, term 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.

Investments in HPQ shares are valued at quoted market prices and are classified as Level 1.

Investments in HPQ warrants are valued using the Black-Scholes pricing model and are classified as Level 3.

Investments in BGF shares are valued at quoted market prices and are classified as Level 1.

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

The fair value of the long-term debt and of the 2018 Convertible Debenture approximates their carrying amounts due to their recent issuance.

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 term loans and convertible debentures as those financial instruments bear interest at fixed rates.

Price risk

Price risk is the risk that the fair value or future cash flows of a financial instrument 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 the price risk for the Company arises from its investments in shares of public companies quoted on the TSXV Exchange. If equity prices had increased or decreased by 15% as at March 31, 2019, with all other variables held constant, the Company's investments would have increased or decreased respectively, by approximately \$366,000 (December 31, 2018 - \$262,000).

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19. Financial instruments (continued)

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, 2019:

	Total	6 months or less	6 to 12 months	1- 3 years	Thereafter
	\$	\$	\$	\$	
Accounts payable and accrued liabilities	2,452,917	2,452,917	-	-	-
Lease liabilities	5,643,199	252,768	263,417	3,993,569	1,133,445
Term loans to the controlling shareholder	317,125	-	317,125	-	-
Convertible debentures	3,570,000	142,500	142,500	3,285,000	-
	11,983,241	2,848,185	723,042	7,278,569	1,133,445

20. Contingent liabilities

The Company is currently a party to various legal proceedings and a tax authorities' review. If management believes that a loss arising from these matters is probable and can reasonably be estimated, that amount of the loss is recorded. As additional information becomes available, any potential liability related to these matters is assessed and the estimates are revised, if necessary. Based on currently available information, management believes that the ultimate outcome of these matters, individually and in aggregate, will not have a material adverse effect on the Company's financial position or overall trends in results of operations.

The Company had received a government grant in prior years of approximately \$800,000 to assist with the development of a new system of advanced waste treatment systems technology. The grant is potentially repayable at the rate of 3% of any consideration received as a result of the project, for which funding has been received, to a maximum of the actual grant received. This repayment provision will remain in effect until May 30, 2024. The Company abandoned the project in 2011 and accordingly, no amount is expected to be repaid.

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21. Capital management

The Company's objectives in managing capital are:

- a) To ensure sufficient liquidity to support its current operations and execute its business plan; and
- b) To provide adequate return to the shareholders

The Company's primary objectives when managing capital is to ensure the entity continues as a going concern as well as to maintain optimal returns to shareholders and benefits for other stakeholders.

The Company currently funds these requirements from cash flows from operations and with financing arrangements with third parties and shareholders. The Company is not subject to any externally imposed capital requirements.

The management of capital includes common shares, warrants reserve, contributed surplus and equity portion of convertible debentures for a total amount of \$50,157,266 (December 31, 2018 - \$50,060,490) and debt of \$3,104,623, (December 31, 2018 - \$3,055,508). The Company monitors its working capital in order to meet its financial obligations. As at March 31, 2019, the Company's working capital deficiency was \$8,648,282 (December 31, 2018 – deficiency of \$4,101,428).

There were no changes in the Company's approach during the three months ended March 31, 2019.

22. 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 March, 31	
	2019	2018
	\$	\$
Revenue from external customers		
Canada	113,166	777,118
United States	336,320	717,315
Europe	215,932	-
Mexico	32,643	557,627
Asia	38,382	8,542
	736,443	2,060,602

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22. Segment information (continued)

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

	Three months ended March 31,	
	2019	2018
	\$	\$
Sales of goods under long-term contracts	719,125	1,996,646
Sales of goods in point of time	12,466	26,853
Other revenues	4,852	37,103
	736,443	2,060,602

The Company has entered into long-term leases for premises, computer software, photocopier equipment and automobile. The minimum lease payments due over the next five years are as follows:

23. Subsequent events

On April 4, 2019 the Company received an amount of \$157,122 from a term loan with respect to its scientific research and experimental development tax credit ("SR&ED Tax Credits") for the Company's fiscal years ending December 31, 2018. The loan bears a yearly interest rate of 16.68% for a term of twelve months.

On April 29, 2019 the Company announced an imminent potential contract of over \$20,000,000 in first year revenues, together with significant subsequent years revenues.

On May 15, 2019, the Company issued 2,996,500 Units to unrelated parties at a price of \$0.58 per Unit, for gross proceeds of \$1,737,970. Each Unit consists of one common share and one common share purchase warrant of the Company. Each warrant entitles the holder thereof to purchase one common share at a price of \$0.85 until May 15, 2021. 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's fees in the amount of \$42,595.

On May 28, 2019, the Company issued 2,024,500 Units to unrelated parties at a price of \$0.58 per Unit, for gross proceeds of \$1,174,210. Each Unit consists of one common share and one common share purchase warrant of the Company. Each warrant entitles the holder thereof to purchase one common share at a price of \$0.85 until May 28, 2021. 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's fees in the amount of \$40,600.

On May 30, 2019, the President and CEO of the Company Mr. Photis Peter Pascali announced that he acquired ownership of 3,385,715 Common Shares and 3,385,715 Warrants in the capital of the Company at a price of \$0.55 per Common Share representing an aggregate amount of \$1,862,143. Each Warrant entitles the holder thereof to purchase one common share at a price of \$0.85 until April 20, 2020. The

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acquisition of these Common Shares represents approximately 2.44% of the Company's issued and outstanding shares.