PyroGenesis Canada Inc.

Condensed
Interim Financial Statements
Three months ended March 31, 2021 and 2020

(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, 2021.
### Condensed Interim Statements of Financial Position
( unaudited )

<table>
<thead>
<tr>
<th></th>
<th>March 31, 2021</th>
<th>December 31, 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Current assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents [note 5]</td>
<td>26,274,344</td>
<td>18,104,899</td>
</tr>
<tr>
<td>Accounts receivable [note 6]</td>
<td>6,528,533</td>
<td>3,329,653</td>
</tr>
<tr>
<td>Costs and profits in excess of billings on uncompleted contracts and projects [note 7]</td>
<td>564,904</td>
<td>1,073,633</td>
</tr>
<tr>
<td>Investment tax credits and government wage subsidy receivable [note 8]</td>
<td>593,025</td>
<td>567,059</td>
</tr>
<tr>
<td>Current portion of deposits [note 10]</td>
<td>2,745,219</td>
<td>1,421,246</td>
</tr>
<tr>
<td>Current portion of royalties receivable</td>
<td>250,000</td>
<td>-</td>
</tr>
<tr>
<td>Contract assets</td>
<td>559,438</td>
<td>694,301</td>
</tr>
<tr>
<td>Other assets</td>
<td>2,957,890</td>
<td>145,996</td>
</tr>
<tr>
<td><strong>Total current assets</strong></td>
<td>40,473,353</td>
<td>25,336,787</td>
</tr>
<tr>
<td><strong>Non-current assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Deposits [note 10]</td>
<td>359,468</td>
<td>301,341</td>
</tr>
<tr>
<td>Strategic investments [note 9]</td>
<td>38,152,354</td>
<td>39,991,750</td>
</tr>
<tr>
<td>Property and equipment</td>
<td>2,992,274</td>
<td>2,529,570</td>
</tr>
<tr>
<td>Right-of-use assets</td>
<td>3,599,206</td>
<td>3,701,000</td>
</tr>
<tr>
<td>Royalties receivable</td>
<td>810,000</td>
<td>1,060,000</td>
</tr>
<tr>
<td>Investment tax credits receivable</td>
<td>-</td>
<td>705,316</td>
</tr>
<tr>
<td>Intangible assets</td>
<td>952,410</td>
<td>905,614</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>87,339,065</td>
<td>74,531,378</td>
</tr>
<tr>
<td><strong>Liabilities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Current liabilities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts payable and accrued liabilities [note 11]</td>
<td>8,236,489</td>
<td>4,708,051</td>
</tr>
<tr>
<td>Billings in excess of costs and profits on uncompleted contracts and projects [note 12]</td>
<td>3,934,198</td>
<td>6,592,972</td>
</tr>
<tr>
<td>Current portion of term loans [note 13]</td>
<td>12,421</td>
<td>12,208</td>
</tr>
<tr>
<td>Current portion of lease liabilities</td>
<td>173,226</td>
<td>225,977</td>
</tr>
<tr>
<td><strong>Total current liabilities</strong></td>
<td>12,356,334</td>
<td>11,539,208</td>
</tr>
<tr>
<td><strong>Non-current liabilities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lease liabilities</td>
<td>2,760,230</td>
<td>2,762,565</td>
</tr>
<tr>
<td>Term loans [note 13]</td>
<td>100,191</td>
<td>100,499</td>
</tr>
<tr>
<td>Deferred income taxes</td>
<td>-</td>
<td>706,000</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td>15,216,755</td>
<td>15,108,272</td>
</tr>
<tr>
<td><strong>Shareholders’ equity (deficiency) [note 14]</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Common shares and warrants</td>
<td>76,017,965</td>
<td>67,950,069</td>
</tr>
<tr>
<td>Contributed surplus</td>
<td>11,398,715</td>
<td>10,480,310</td>
</tr>
<tr>
<td>Deficit (15,294,370)</td>
<td></td>
<td>(19,007,273)</td>
</tr>
<tr>
<td><strong>Total shareholders’ equity (deficiency)</strong></td>
<td>72,122,310</td>
<td>59,423,106</td>
</tr>
<tr>
<td><strong>Total liabilities and shareholders’ equity (deficiency)</strong></td>
<td>87,339,065</td>
<td>74,531,378</td>
</tr>
</tbody>
</table>

Contingent liabilities, subsequent events [notes 21, 25]
Approved on behalf of the Board:

## Condensed interim Statements of Comprehensive Income (Loss)
( unaudited )

<table>
<thead>
<tr>
<th></th>
<th>Three months ended March 31,</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2021</td>
<td>2020</td>
<td></td>
</tr>
<tr>
<td></td>
<td>$</td>
<td>$</td>
<td></td>
</tr>
<tr>
<td><strong>Revenues [note 4]</strong></td>
<td>6,264,503</td>
<td>718,908</td>
<td></td>
</tr>
<tr>
<td>Cost of sales and services [note 16]</td>
<td>4,121,493</td>
<td>451,494</td>
<td></td>
</tr>
<tr>
<td><strong>Gross Profit</strong></td>
<td>2,143,010</td>
<td>267,414</td>
<td></td>
</tr>
<tr>
<td><strong>Expenses (income)</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Selling, general and administrative [note 16]</td>
<td>3,725,435</td>
<td>1,276,593</td>
<td></td>
</tr>
<tr>
<td>Research and development</td>
<td>286,307</td>
<td>23,088</td>
<td></td>
</tr>
<tr>
<td></td>
<td>4,011,742</td>
<td>1,299,681</td>
<td></td>
</tr>
<tr>
<td><strong>Net loss from operations</strong></td>
<td>(1,868,732)</td>
<td>(1,032,267)</td>
<td></td>
</tr>
<tr>
<td>Changes in fair market value of strategic investments [note 9]</td>
<td>5,634,722</td>
<td>(492,024)</td>
<td></td>
</tr>
<tr>
<td>Finance costs, net [note 17]</td>
<td>(53,087)</td>
<td>(232,736)</td>
<td></td>
</tr>
<tr>
<td><strong>Net earnings (loss) before income taxes</strong></td>
<td>3,712,903</td>
<td>(1,757,027)</td>
<td></td>
</tr>
<tr>
<td>Income taxes - current</td>
<td>706,000</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Income taxes – deferred</td>
<td>(706,000)</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td><strong>Net income (loss) and comprehensive income (loss)</strong></td>
<td>3,712,903</td>
<td>(1,757,027)</td>
<td></td>
</tr>
<tr>
<td><strong>Earnings (loss) per share [note 18]</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Basic</td>
<td>0.02</td>
<td>(0.01)</td>
<td></td>
</tr>
<tr>
<td>Diluted</td>
<td>0.02</td>
<td>(0.01)</td>
<td></td>
</tr>
</tbody>
</table>

The accompanying notes form an integral part of the condensed interim financial statements.
### Condensed Interim Statements of Changes in Shareholders’ Equity (Deficiency) (unaudited)

<table>
<thead>
<tr>
<th></th>
<th>Number of Common Shares</th>
<th>Class A common shares and warrants</th>
<th>Contributed Surplus</th>
<th>Equity portion of convertible debentures</th>
<th>Deficit</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Balance - December 31, 2020</strong></td>
<td>159,145,993</td>
<td>67,950,069</td>
<td>10,480,310</td>
<td>-</td>
<td>(19,007,273)</td>
<td>59,423,106</td>
</tr>
<tr>
<td>Share issued on exercise of stock options</td>
<td>11,000</td>
<td>10,315</td>
<td>(3,935)</td>
<td>-</td>
<td>-</td>
<td>6,380</td>
</tr>
<tr>
<td>Share issued on exercise of warrants and compensation options</td>
<td>5,344,549</td>
<td>8,057,581</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>8,057,581</td>
</tr>
<tr>
<td>Share-based payments</td>
<td>-</td>
<td>-</td>
<td>922,340</td>
<td>-</td>
<td>-</td>
<td>922,340</td>
</tr>
<tr>
<td>Net income and comprehensive income</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>3,712,903</td>
<td>3,712,903</td>
</tr>
<tr>
<td><strong>Balance – March 31, 2021</strong></td>
<td>164,501,542</td>
<td>76,017,965</td>
<td>11,398,715</td>
<td>-</td>
<td>(15,294,370)</td>
<td>72,122,310</td>
</tr>
<tr>
<td><strong>Balance - December 31, 2019</strong></td>
<td>141,303,451</td>
<td>47,073,243</td>
<td>6,679,730</td>
<td>401,760</td>
<td>(61,237,656)</td>
<td>(6,082,923)</td>
</tr>
<tr>
<td>Share issued on exercise of stock options</td>
<td>1,488,000</td>
<td>746,976</td>
<td>(300,576)</td>
<td>-</td>
<td>-</td>
<td>466,400</td>
</tr>
<tr>
<td>Share-based payments</td>
<td>-</td>
<td>-</td>
<td>70,867</td>
<td>-</td>
<td>-</td>
<td>70,867</td>
</tr>
<tr>
<td>Equity component of convertible debentures issued</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>98,422</td>
<td>-</td>
<td>98,422</td>
</tr>
<tr>
<td>Net loss and comprehensive loss</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(1,757,027)</td>
<td>(1,757,027)</td>
<td></td>
</tr>
<tr>
<td><strong>Balance – March 31, 2020</strong></td>
<td>142,791,451</td>
<td>47,820,219</td>
<td>6,450,021</td>
<td>500,182</td>
<td>(61,994,683)</td>
<td>(7,224,261)</td>
</tr>
</tbody>
</table>

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

### Condensed Interim Statements of Cash Flows

(unaudited)

<table>
<thead>
<tr>
<th></th>
<th>Three months ended March 31,</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2021</td>
<td>2020</td>
<td></td>
</tr>
<tr>
<td></td>
<td>$</td>
<td>$</td>
<td></td>
</tr>
<tr>
<td><strong>Cash flows provided by (used in)</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating activities</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net loss</td>
<td>3,712,903</td>
<td>(1,757,027)</td>
<td></td>
</tr>
<tr>
<td>Adjustments for:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Share-based payments</td>
<td>922,340</td>
<td>70,867</td>
<td></td>
</tr>
<tr>
<td>Depreciation on property and equipment</td>
<td>76,317</td>
<td>10,056</td>
<td></td>
</tr>
<tr>
<td>Depreciation of right-of-use assets</td>
<td>101,794</td>
<td>89,365</td>
<td></td>
</tr>
<tr>
<td>Amortization of intangibles assets</td>
<td>6,780</td>
<td>6,813</td>
<td></td>
</tr>
<tr>
<td>Amortization of contract assets</td>
<td>134,863</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Finance costs</td>
<td>53,087</td>
<td>232,736</td>
<td></td>
</tr>
<tr>
<td>Change in fair value of investments</td>
<td>(5,634,722)</td>
<td>492,024</td>
<td></td>
</tr>
<tr>
<td>Net change in non-cash operating working capital items [note 15]</td>
<td>(6,008,484)</td>
<td>1,122,234</td>
<td></td>
</tr>
<tr>
<td><strong>Investing activities</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Purchase of property and equipment</td>
<td>(549,576)</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Purchase of intangible assets</td>
<td>(75,668)</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Purchase of strategic investments</td>
<td>(3,392,184)</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Disposal of strategic investments</td>
<td>10,866,302</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Variation of deposits</td>
<td>-</td>
<td>(9,550)</td>
<td></td>
</tr>
<tr>
<td><strong>Financing activities</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Repayment of term loan [note 10]</td>
<td>(2,973)</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Repayment of convertible debenture [note11]</td>
<td>-</td>
<td>(354,000)</td>
<td></td>
</tr>
<tr>
<td>Repayment of lease liabilities</td>
<td>(55,086)</td>
<td>(34,618)</td>
<td></td>
</tr>
<tr>
<td>Proceeds from convertible loan [note 11]</td>
<td>-</td>
<td>903,000</td>
<td></td>
</tr>
<tr>
<td>Proceeds from issuance of shares upon exercise of stock options [note 12]</td>
<td>6,380</td>
<td>446,400</td>
<td></td>
</tr>
<tr>
<td>Proceeds from issuance of shares upon exercise of warrants and compensation options</td>
<td>8,057,581</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Interest paid</td>
<td>(50,209)</td>
<td>(113,315)</td>
<td></td>
</tr>
<tr>
<td><strong>Net increase (decrease) in cash</strong></td>
<td>7,955,693</td>
<td>847,467</td>
<td></td>
</tr>
<tr>
<td>Cash - beginning of period</td>
<td>8,169,445</td>
<td>1,104,985</td>
<td></td>
</tr>
<tr>
<td><strong>Cash - end of period</strong></td>
<td>18,104,899</td>
<td>1,139,416</td>
<td></td>
</tr>
<tr>
<td></td>
<td>26,274,344</td>
<td>1,139,416</td>
<td></td>
</tr>
</tbody>
</table>

### Supplemental cash flow disclosure

**Non-cash transactions:**

- Purchase of property and equipment included in accounts payables | 177,193 | 102,071 |
- Purchase of intangibles assets included in accounts payables | 53,576 | 81,591 |
- Interest included in accounts payable | - | 32,614 |

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

(a) Nature of operations

PyroGenesis Canada Inc. (the “Company”), incorporated under the laws of the Canada Business Corporations Act, was formed on July 11, 2011. The Company owns patents of advanced waste treatment systems technology and designs, develops, manufactures and commercialises advanced plasma processes and systems. The Company is domiciled at 1744 William Street, Suite 200, Montreal, Quebec. The Company is publicly traded on the TSX Exchange under the Symbol “PYR” and on the Frankfurt Stock Exchange (FSX) under the symbol “8PY “, and since March 11, 2021, on NASDAQ in the USA under the symbol “PYRNF”.

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, 2020.

These condensed interim financial statements were approved and authorized for issuance by the Board of Directors on May 14, 2021.

(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 financial statements have been prepared on the historical cost basis except for:

(i) strategic investments which are accounted for at fair value,

(ii) stock-based payment arrangements, which are measured at fair value on grant date pursuant to IFRS 2, Share-based Payment; and

(iii) Lease liabilities, which are initially measured at the present value of minimum lease payments.

(d) Basis of consolidation

For financial reporting purposes, subsidiaries are defined as entities controlled by the Company. The Company controls an entity when it has power over the investee; it is exposed to, or has rights to, variable returns from its involvement with the entity; and it has the ability to affect those returns through its power over the entity.
2. Basis of preparation (continued)

In instances where the Company does not hold a majority of the voting rights, further analysis is performed to determine whether or not the Company has control of the entity. The Company is deemed to have control when, according to the terms of the shareholder’s and/or other agreements, it makes most of the decisions affecting relevant activities.

Theses consolidated financial statements include the accounts of the Company and its subsidiary Drosrite International LLC. Drosrite International LLC is owned by a member of the Company’s key management personnel and close member of the CEO and controlling shareholder’s family and is deemed to be controlled by the Company. All significant transactions and balances between the Company and its subsidiary have been eliminated upon consolidation.

3. 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, 2020.

4. Revenues

Revenues by product line:

The Company’s revenues are generated primarily from PUREVAP™ related sales of $625,086 (2020 - $17,965), DROSRITE™ related sales of $2,740,725 (2020 - $474,432), the development and support related to systems supplied to the U.S. Military of $2,586,021 (2020 - $23,896), torch related sales of $195,221 (2020 – $87,944), and other sales and services of $117,450 (2020 - $114,671).

The following is a summary of the Company’s revenues for the three months ending March 31, by revenue recognition method:

<table>
<thead>
<tr>
<th>Revenue from contracts with customers:</th>
<th>2021</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales of goods under long-term contracts</td>
<td>6,049,885</td>
<td>637,950</td>
</tr>
<tr>
<td>Sales of goods in point of time</td>
<td>214,618</td>
<td>59,995</td>
</tr>
<tr>
<td>Other revenues</td>
<td>-</td>
<td>20,963</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>6,264,503</td>
<td>718,908</td>
</tr>
</tbody>
</table>

See note 30 for sales by geographic area.

Transaction price allocated to remaining performance obligations
4. Revenues (continued)

As at March 31, 2021, revenue expected to be recognized in the future related to performance obligations that are unsatisfied (or partially satisfied) at the reporting date is $26,076,669. 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.

5. Cash and cash equivalents

As at March 31, 2021, there are no restrictions on cash and cash equivalents. Cash and cash equivalents include the following components:

<table>
<thead>
<tr>
<th></th>
<th>March 31, 2021</th>
<th>December 31, 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>18,274,344</td>
<td>10,104,899</td>
</tr>
<tr>
<td>Guaranteed investment certificates</td>
<td>8,000,000</td>
<td>8,000,000</td>
</tr>
<tr>
<td><strong>Cash and cash equivalents</strong></td>
<td><strong>26,274,344</strong></td>
<td><strong>18,104,899</strong></td>
</tr>
</tbody>
</table>

Guaranteed investment certificates are instruments issued by Canadian financial institutions and include $3,000,000 bearing interest at a rate of 0.46% and $5,000,000 bearing interest at a rate of 0.53%. These instruments are redeemable without penalty 60 days and 30 days, respectively, from the date of acquisition and mature in February 2021 and December 2021.

6. Accounts receivable

Details of accounts receivable were as follows:

<table>
<thead>
<tr>
<th></th>
<th>March 31, 2021</th>
<th>December 31, 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 – 30 days</td>
<td>2,821,358</td>
<td>309,362</td>
</tr>
<tr>
<td>31 – 60 days</td>
<td>-</td>
<td>226,713</td>
</tr>
<tr>
<td>61 – 90 days</td>
<td>-</td>
<td>253,141</td>
</tr>
<tr>
<td>Greater than 90 days</td>
<td>565,748</td>
<td>218,008</td>
</tr>
<tr>
<td><strong>Total trade accounts receivable</strong></td>
<td><strong>3,387,106</strong></td>
<td><strong>1,007,224</strong></td>
</tr>
<tr>
<td>Unbilled trade receivables</td>
<td><strong>2,435,408</strong></td>
<td><strong>1,132,911</strong></td>
</tr>
<tr>
<td>Other receivables</td>
<td>28,283</td>
<td>931,041</td>
</tr>
<tr>
<td>Sales tax receivable</td>
<td>677,736</td>
<td>258,477</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>6,528,533</strong></td>
<td><strong>3,329,653</strong></td>
</tr>
</tbody>
</table>

There is no allowance for expected credit losses recorded as at March 31, 2021 and December 31, 2020.
7. Costs and profits in excess of billings on uncompleted contracts and projects

As at March 31, 2021, the Company had five uncompleted contracts and projects with total billings of $673,096 which were less than total costs incurred and had recognized cumulative revenue of $1,238,000 since those contracts and projects began. This compares with seven contracts with total billings of $8,378,093 which were less than total costs incurred and had recognized cumulative revenue of $9,451,726 as at December 31, 2020.

Changes in costs and profits in excess of billings on uncompleted contracts during the three months ended March 31, 2021 are explained by $5,193 recognized at the beginning of the year being transferred to accounts receivable, and $503,536 resulting from changes in the measure of progress.

8. Investment tax credits and government wage subsidy

As at March 31, 2021 investment tax credits related to qualifying projects from the provincial government were $26,649 (2020 - $131,871) and $Nil (2020 $1,058,017) of investment tax credits earned in prior years that met the criteria for recognition. The Company also recorded for the three months ended March 31, 2021 $1,183 (2020 - $18,420) of the investment tax credits against cost of sales and services, $17,967 (2020 - $1,141,468) against research and development expenses and $7,500 (2020 - $30,000) against selling general and administrative expenses.

9. Strategic investments

<table>
<thead>
<tr>
<th></th>
<th>March 31, 2021</th>
<th>December 31, 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beauce Gold Fields (“BGF”) shares – level 1</td>
<td>276,964</td>
<td>123,095</td>
</tr>
<tr>
<td>HPQ Silicon Resources Inc. (“HPQ”) shares - level 1</td>
<td>12,091,320</td>
<td>16,489,220</td>
</tr>
<tr>
<td>HPQ warrants – level 3</td>
<td>25,784,070</td>
<td>23,379,435</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>38,152,354</strong></td>
<td><strong>39,991,750</strong></td>
</tr>
</tbody>
</table>

Investments in HPQ (TSXV: HPQ) comprise 10,076,100 common shares (2020 - 18,450,000) and 25,844,600 warrants (2020 - 16,250,000). 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.
9. Strategic investments (continued)

The change in strategic investments is summarized as follows:

<table>
<thead>
<tr>
<th></th>
<th>(“BGF”) shares – level 1</th>
<th>HPQ shares – level 1</th>
<th>(“HPQ”) Warrants - level 3</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Quantity</td>
<td>$</td>
<td>Quantity</td>
</tr>
<tr>
<td>Balance, December 31,</td>
<td>2019</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Additions</td>
<td>1,025,794</td>
<td>133,354</td>
<td>18,450,000</td>
</tr>
<tr>
<td>Received in lieu of</td>
<td>-</td>
<td>-</td>
<td>7,887,000</td>
</tr>
<tr>
<td>payment of services</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Exercised</td>
<td>-</td>
<td>-</td>
<td>4,394,600</td>
</tr>
<tr>
<td>Disposed</td>
<td>-</td>
<td>-</td>
<td>1,500,000</td>
</tr>
<tr>
<td>Change in the fair</td>
<td>- (10,259)</td>
<td></td>
<td>(17,241,400)</td>
</tr>
<tr>
<td>value</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Balance, December 31,</td>
<td>2020</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Additions</td>
<td>1,025,794</td>
<td>123,095</td>
<td>14,990,200</td>
</tr>
<tr>
<td>Disposed</td>
<td>-</td>
<td>-</td>
<td>2,993,500</td>
</tr>
<tr>
<td>Change in the fair</td>
<td>- 153,869</td>
<td></td>
<td>(7,907,600)</td>
</tr>
<tr>
<td>value</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Balance, March 31, 2021</td>
<td>1,025,794</td>
<td>276,964</td>
<td>10,076,100</td>
</tr>
</tbody>
</table>

As at March 31, 2021, the fair value of the HPQ warrants was measured using the Black-Scholes option pricing model using the following assumptions:

<table>
<thead>
<tr>
<th>Number of warrants</th>
<th>December 21, 2018</th>
<th>April 29, 2020</th>
<th>June 2, 2020</th>
<th>Sept. 3, 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>16,250,000</td>
<td>12,000</td>
<td>4,394,600</td>
<td>4,000,000</td>
</tr>
<tr>
<td>Date of issuance</td>
<td>Dec.</td>
<td>April 29,</td>
<td>June 2,</td>
<td>Sept. 3,</td>
</tr>
<tr>
<td></td>
<td>2018</td>
<td>2020</td>
<td>2020</td>
<td>2020</td>
</tr>
<tr>
<td>Exercise price ($)</td>
<td>0.17</td>
<td>0.10</td>
<td>0.10</td>
<td>0.61</td>
</tr>
<tr>
<td>Assumptions under the Back Scholes model:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fair value of the shares ($)</td>
<td>1.20</td>
<td>1.20</td>
<td>1.20</td>
<td>1.20</td>
</tr>
<tr>
<td>Risk free interest rate (%)</td>
<td>0.23</td>
<td>0.23</td>
<td>0.23</td>
<td>0.23</td>
</tr>
<tr>
<td>Expected volatility (%)</td>
<td>108.77</td>
<td>113.41</td>
<td>114.23</td>
<td>114.93</td>
</tr>
<tr>
<td>Expected dividend yield</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Contractual remaining life (number of months)</td>
<td>5</td>
<td>25</td>
<td>26</td>
<td>29</td>
</tr>
</tbody>
</table>

As at March 31, 2021, a gain from initial recognition of warrants of $770,586 has been deferred off balance sheet until realized.
10. Deposits

<table>
<thead>
<tr>
<th></th>
<th>March 31, 2021</th>
<th>December 31, 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current portion:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Suppliers</td>
<td>2,745,219</td>
<td>1,421,246</td>
</tr>
<tr>
<td>Non-current portion:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Suppliers</td>
<td>1,312</td>
<td>1,099</td>
</tr>
<tr>
<td>Rent</td>
<td>358,156</td>
<td>300,242</td>
</tr>
<tr>
<td>Total non-current</td>
<td>359,468</td>
<td>301,341</td>
</tr>
<tr>
<td>Total Deposits</td>
<td>3,104,687</td>
<td>1,722,587</td>
</tr>
</tbody>
</table>

11. Accounts payable and accrued liabilities

<table>
<thead>
<tr>
<th></th>
<th>March 31, 2021</th>
<th>December 31, 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts payable</td>
<td>5,361,159</td>
<td>2,206,249</td>
</tr>
<tr>
<td>Accrued liabilities</td>
<td>2,060,704</td>
<td>1,701,554</td>
</tr>
<tr>
<td>Sale commissions payable ¹</td>
<td>728,059</td>
<td>731,671</td>
</tr>
<tr>
<td>Accounts payable to the controlling shareholder and CEO</td>
<td>73,253</td>
<td>68,577</td>
</tr>
<tr>
<td>Accounts payable to a trust beneficially owned by the controlling shareholder and CEO</td>
<td>13,316</td>
<td>-</td>
</tr>
<tr>
<td>Total</td>
<td>8,236,491</td>
<td>4,708,051</td>
</tr>
</tbody>
</table>

¹Sale commissions payable relates to the costs to obtain long-term contracts with clients.

12. 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 $19,729,620 (2020 - $5,126,249).

Payments to date received were $21,713,818 and $1,950,000 of deposits on contract in progress (2020 - $7,752,228 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, 2021 are explained by $3,080,993 recognized as revenue, and a decrease of $422,218 resulting from cash received excluding amounts recognized as revenue.
13. Term loans

<table>
<thead>
<tr>
<th>EDC Loan¹</th>
<th>Other Term Loans²</th>
<th>Other Term Loans</th>
<th>2019 SR&amp;ED Tax Credit loan</th>
<th>2018 SR&amp;ED Tax Credit loan</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance, December 31, 2019</td>
<td>-</td>
<td>-</td>
<td>110,933</td>
<td>185,331</td>
<td>199,736</td>
</tr>
<tr>
<td>Additions</td>
<td>157,058</td>
<td>38,861</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Conversion option</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Financing costs</td>
<td>(83,119)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Accretion</td>
<td>1,861</td>
<td>-</td>
<td>4,267</td>
<td>40,902</td>
<td>14,264</td>
</tr>
<tr>
<td>Payments</td>
<td>-</td>
<td>(1,954)</td>
<td>(115,200)</td>
<td>(226,233)</td>
<td>(214,000)</td>
</tr>
<tr>
<td>Balance, December 31, 2020</td>
<td>75,800</td>
<td>36,907</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Accretion</td>
<td>2,878</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Payments</td>
<td>-</td>
<td>(2,973)</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Balance, March 31, 2021</td>
<td>78,678</td>
<td>33,934</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Less current portion</td>
<td>-</td>
<td>(12,421)</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Balance, March 31, 2021</td>
<td>78,678</td>
<td>21,513</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

¹ maturing in 2027, non-interest bearing, payable in equal instalments from July 2023 to June 2027.
² maturing October 23, 2023, bearing interest at a rate of 6.95% per annum payable in monthly instalments of $1,200 secured by automobile (carrying amount of $36,702 as at December 31, 2020).

On March 5, 2020, the Company entered into a repayable contribution agreement up to $450,000 under the Regional Economic Growth through Innovation program from the Economic Development Agency of Canada ("EDC"). The contribution is repayable in 60 equal monthly instalments due and payable 24 months following the completion of the project. During the year ended December 31, 2020, the Company received contribution totaling $157,058. The loan was discounted using the effective interest method. The effective interest rate on the loan is 15%.
14. Shareholders’ equity (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

The following table sets out the activity in stock options during the three months ended March 31, 2021:

<table>
<thead>
<tr>
<th>Number of options</th>
<th>Weighted average exercise price</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance – December 31, 2020</td>
<td>9,040,000</td>
</tr>
<tr>
<td>Granted</td>
<td>-</td>
</tr>
<tr>
<td>Exercised</td>
<td>11,000</td>
</tr>
<tr>
<td>Cancelled/Forfeited</td>
<td>5,000</td>
</tr>
<tr>
<td>Balance, March 31, 2021</td>
<td>9,024,000</td>
</tr>
</tbody>
</table>

As at March 31, 2021, the outstanding options, as issued under the stock option plan to directors, officers, employees and consultants for the purchases of one common share per option, are as follows:

<table>
<thead>
<tr>
<th>Number of stock options March 31, 2021</th>
<th>Exercise price per option</th>
<th>Expiry date</th>
</tr>
</thead>
<tbody>
<tr>
<td>$</td>
<td></td>
<td></td>
</tr>
<tr>
<td>September 25, 2016</td>
<td>3,000,000</td>
<td>0.18</td>
</tr>
<tr>
<td>November 3, 2017</td>
<td>2,409,000</td>
<td>0.58</td>
</tr>
<tr>
<td>May 10, 2018</td>
<td>250,000</td>
<td>0.52</td>
</tr>
<tr>
<td>July 3, 2018</td>
<td>300,000</td>
<td>0.51</td>
</tr>
<tr>
<td>October 29, 2018</td>
<td>70,000</td>
<td>0.52</td>
</tr>
<tr>
<td>September 29, 2019</td>
<td>200,000</td>
<td>0.51</td>
</tr>
<tr>
<td>January 2, 2020</td>
<td>100,000</td>
<td>0.45</td>
</tr>
<tr>
<td>July 16, 2020</td>
<td>2,445,000</td>
<td>4.41</td>
</tr>
<tr>
<td>October 26, 2020</td>
<td>250,000</td>
<td>4.00</td>
</tr>
<tr>
<td></td>
<td>9,024,000</td>
<td>1.57</td>
</tr>
</tbody>
</table>
PyroGenesis Canada Inc.

Notes to the Condensed Interim Financial Statements
For the periods ended March 31, 2021 and 2020
( unaudited)

14. Shareholders’ equity (deficiency) (continued)

Share purchase warrants

The following table reflects the activity in warrants for the three months ended March 31, 2021 and the number of issued and outstanding share purchase warrants at December 31, 2020:

<table>
<thead>
<tr>
<th>Number of warrants December 31, 2020</th>
<th>Issued</th>
<th>Exercised</th>
<th>Number of warrants March 31, 2021</th>
<th>Price per warrant</th>
<th>Expiry date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Issuance of units – September 28, 2018</td>
<td>3,448,276</td>
<td>-</td>
<td>3,448,276</td>
<td>-</td>
<td>0.58</td>
</tr>
<tr>
<td>Issuance of units – October 19, 2018</td>
<td>100,000</td>
<td>-</td>
<td>100,000</td>
<td>-</td>
<td>0.58</td>
</tr>
<tr>
<td>Issuance of units – May 15, 2019</td>
<td>1,355,500</td>
<td>-</td>
<td>292,500</td>
<td>1,063,000</td>
<td>0.85</td>
</tr>
<tr>
<td>Issuance of units – May 24, 2019</td>
<td>750,000</td>
<td>-</td>
<td>-</td>
<td>750,000</td>
<td>0.85</td>
</tr>
<tr>
<td>Issuance of units – June 19, 2019</td>
<td>500,000</td>
<td>-</td>
<td>-</td>
<td>500,000</td>
<td>0.85</td>
</tr>
<tr>
<td>Issuance of units – October 25, 2019</td>
<td>225,000</td>
<td>-</td>
<td>225,000</td>
<td>-</td>
<td>0.75</td>
</tr>
<tr>
<td>Issuance of units – November 10, 2020</td>
<td>1,677,275</td>
<td>-</td>
<td>991,652</td>
<td>685,623</td>
<td>4.50</td>
</tr>
<tr>
<td>Issuance of warrants – November 10, 2020</td>
<td>95,707</td>
<td>-</td>
<td>95,707</td>
<td>-</td>
<td>4.50</td>
</tr>
</tbody>
</table>

8,151,758 | - | 5,153,135 | 2,998,623 | 1.68 |

¹ On March 10, 2021, the Company has delivered the Acceleration Notice to accelerate the expiry date of the warrants to April 14, 2021 issued on November 10, 2020.

15. Supplemental disclosure of cash flow information

Net changes in non-cash components of operating working capital

| | Three months ended March 31, |
| | 2021 | 2020 |
| | $ | $ |
| Decrease (increase) in: | | |
| Accounts receivable | (3,198,880) | (127,800) |
| Costs and profits in excess of billings on uncompleted contracts | 508,729 | (44,925) |
| Investment tax credits receivable | (26,650) | (70,313) |
| Deposits | (1,382,100) | (301,094) |
| Other assets | (2,811,894) | 26,381 |
| Increase (decrease) in: | | |
| Accounts payable and accrued liabilities | 3,561,085 | 148,663 |
| Billings in excess of costs and profits on uncompleted contracts | (2,658,774) | 1,491,322 |
| | (6,008,484) | 1,122,234 |

15
16. Other information

The aggregate amortization of intangible assets expense for the three months ended March 31, 2021 was $6,780 (2020 - $6,813) and was recorded in cost of sales and services.

Depreciation on property and equipment amounted to $76,317 and depreciation on right of use assets amounted to $101,794 for the three months ended March 31, 2021 (2020 - $10,056 and $89,365 respectively) and is recorded in selling, general and administrative. Employee benefits totaled $2,893,901 in the three months ended March 31, 2021 (2020 - $1,492,034) and include share-based compensation of $922,340 (2020 - $70,867).

The Company has been awarded various grants during the three months period, which were recognized when they became receivable. The grants, received in Q1, 2021, are unconditional and amounted to $59,179 (2020 - $218,636). An amount of $59,179 (2020 - $206,136) was recorded as a reduction to the related expenses in research and development and an amount of $Nil (2020 - $12,500) was recorded as a reduction to the related expenses in selling, general and administrative.

17. Net finance costs:

| Finance costs                                    | Three months ended March 31, |
|                                                  | 2021           | 2020           |
| Interest and fees on convertible debentures      |                | 75,120         |
| Interest accretion of convertible debentures     |                | 44,096         |
| Interest on term loans                           | 3,508          | 34,965         |
| Interest on lease liabilities                     | 45,981         | 63,235         |
| Interest accretion on promissory notes           |                | 14,458         |
| Penalties and other interest expenses             | 3,598          | 862            |
| **Net finance costs**                            | **53,087**     | **232,736**    |
18. Earnings (loss) per share

The following table provides a reconciliation between the number of basic and fully diluted shares outstanding:

<table>
<thead>
<tr>
<th></th>
<th>Three months ended March 31,</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2021</td>
</tr>
<tr>
<td>Weighted daily average of Common shares</td>
<td>161,221,511</td>
</tr>
<tr>
<td>Dilutive effect of stock options</td>
<td>6,103,135</td>
</tr>
<tr>
<td>Dilutive effect of warrants</td>
<td>2,310,829</td>
</tr>
<tr>
<td>Weighted average number of diluted shares</td>
<td>169,635,475</td>
</tr>
</tbody>
</table>

Number of anti-diluted stock options, warrants, compensation options, convertible debentures and convertible loans excluded from fully diluted earnings per share calculation

<table>
<thead>
<tr>
<th></th>
<th>2021</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2,445,000</td>
<td>34,700,417</td>
</tr>
</tbody>
</table>

19. Related party transactions

During the three months ended March 31, 2021, the Company concluded the following transactions with related parties:

The Company entered into a lease agreement for rent of a property with a trust whose beneficiary is the controlling shareholder and CEO of the Company. As at March 31, 2021 the carrying amount of the right-of-use asset and lease liabilities are $3,599,206 and $2,933,456, respectively (December 31, 2020 - $3,701,000 and $2,988,542).

An amount of $67,945 was charged by a trust whose beneficiary is the controlling shareholder and CEO for rent and property taxes (March 31, 2020 - $68,047 of rent and property taxes). A balance due of $13,316 (March 31, 2020 - $Nil) is included in accounts payable and accrued liabilities.

A balance due to the controlling shareholder and CEO of the Company amounted to $73,253 (December 31, 2020 - $72,188) for expense report, salary and vacation payables and is included in accounts payable and accrued liabilities as at March 31, 2021.

An amount of $Nil (March 31, 2020 - $4,413), of interest accretion was expensed in net financing costs related to the loan of $295,000 from the controlling shareholder and CEO of the Company. A balance due of $Nil is included in accounts payable and accrued liabilities.

As at March 31, 2021, an accretion amount of $Nil (March 31, 2020 - $5,360), were accrued on a convertible loan of $903,000 from a trust whose beneficiary is the controlling shareholder and CEO of the Company and are included in accounts payable and accrued liabilities.

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:
19. Related party transactions (continued)

<table>
<thead>
<tr>
<th></th>
<th>2021</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries – officers</td>
<td>241,559</td>
<td>262,670</td>
</tr>
<tr>
<td>Pension contributions</td>
<td>4,436</td>
<td>2,769</td>
</tr>
<tr>
<td>Fees – Board of Directors</td>
<td>33,500</td>
<td>44,000</td>
</tr>
<tr>
<td>Share - based compensation - officers</td>
<td>479,617</td>
<td>2,122</td>
</tr>
<tr>
<td>Share – based compensation – Board of Directors</td>
<td>172,216</td>
<td>62,241</td>
</tr>
<tr>
<td>Other benefits – officers</td>
<td>9,988</td>
<td>5,387</td>
</tr>
<tr>
<td><strong>Total compensation</strong></td>
<td><strong>941,316</strong></td>
<td><strong>379,189</strong></td>
</tr>
</tbody>
</table>

A balance of $57,748 of key management compensation, of the amounts noted above, is included in accounts payable and accrued liabilities as at March 31, 2021 (December 31, 2020 - $102,625).

20. 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, 2021 the following items are denominated in US dollars:

<table>
<thead>
<tr>
<th></th>
<th>March 31, 2021 CDN</th>
<th>December 31, 2020 CDN</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>49,303</td>
<td>1,366,627</td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>3,164,921</td>
<td>621,817</td>
</tr>
<tr>
<td>Accounts payable and accrued liabilities</td>
<td>(4,406,330)</td>
<td>(252,463)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>(1,192,106)</strong></td>
<td><strong>1,735,981</strong></td>
</tr>
</tbody>
</table>

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

Sensitivity analysis

At March 31, 2021, 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, 2021 would have been ($119,000) (December 31, 2020 – $174,000).

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, 2021 represents the carrying amount of cash, accounts receivable and deposits.

Credit concentration

During the three months ended March 31, 2021, three customers accounted for 91% (March 31, 2020 – two customers for 78%) of revenues from operations.

<table>
<thead>
<tr>
<th></th>
<th>Three months ended March 31, 2021</th>
<th></th>
<th>Three months ended March 31, 2020</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Revenues</td>
<td>% of total revenues</td>
<td>Revenues</td>
<td>% of total revenues</td>
</tr>
<tr>
<td></td>
<td>$</td>
<td>%</td>
<td>$</td>
<td>%</td>
</tr>
<tr>
<td>Customer 1</td>
<td>625,086</td>
<td>10</td>
<td>474,432</td>
<td>66</td>
</tr>
<tr>
<td>Customer 2</td>
<td>2,371,403</td>
<td>38</td>
<td>87,945</td>
<td>12</td>
</tr>
<tr>
<td>Customer 3</td>
<td>2,733,107</td>
<td>43</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total</td>
<td>5,729,596</td>
<td>91</td>
<td>562,377</td>
<td>78</td>
</tr>
</tbody>
</table>

Two customers accounted for 93% (December 31, 2020 – two customers for 69%) of trade accounts receivable with amounts owing to the Company of $3,160,252 (2020 - $1,211,177), representing the Company’s major credit risk exposure. Credit concentration is determined based on customers representing 10% or more of total revenues and/or total accounts receivable. The Company believes that there is no unusual exposure associated with the collection of these receivables. The Company manages its credit risk by performing credit assessments of its customers and provides allowances for potentially uncollectible accounts receivable. The Company does not generally require collateral or other security from customers on accounts receivable.

Fair value of financial instruments

Financial instruments are comprised of cash, accounts receivable, investments, 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.
20. Financial instruments (continued)

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 BGF shares are valued as at March 31, 2021 at quoted market prices and are classified as Level 1. Investments in BGF shares were valued as at December 31, 2018 based on a valuation technique that estimates a business' value based on a recent round of financing and were classified as Level 3.

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.

Fair value of financial instruments - continued

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 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 25% as at March 31, 2021, with all other variables held constant, the Company’s investments would have increased or decreased respectively, by approximately $10,679,000 (December 31, 2020 - $11,874,375).

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
20. Financial instruments (continued)

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.

Liquidity risk - continued

The following table summarizes the contractual maturities of financial liabilities as at March 31, 2021:

<table>
<thead>
<tr>
<th>Carrying value</th>
<th>Total contractual amount</th>
<th>Less than one year</th>
<th>2-3 years</th>
<th>4-5 years</th>
<th>Over 5 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts payable and accrued liabilities</td>
<td>8,236,489</td>
<td>8,236,489</td>
<td>8,236,489</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Term loans</td>
<td>112,612</td>
<td>194,230</td>
<td>14,389</td>
<td>46,340</td>
<td>62,824</td>
</tr>
<tr>
<td>Lease liabilities</td>
<td>2,933,456</td>
<td>3,185,821</td>
<td>351,867</td>
<td>2,830,459</td>
<td>3,495</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>11,282,557</td>
<td>11,616,540</td>
<td>8,602,745</td>
<td>2,876,799</td>
<td>66,319</td>
</tr>
</tbody>
</table>

21. 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.
22. 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 Company monitors its working capital in order to meet its financial obligations. For the three months ending March 31, 2021, the Company’s working capital was $27,867,016 (December 31, 2020 – $13,797,579).

The management of capital includes shareholders’ equity for a total amount of $72,122,309 (December 31, 2020 – $59,423,106) and debt of $112,612 (December 31, 2020 - $112,707).

Although there were no significant changes in the Company’s approach during fiscal 2020, the Company was able to retire its term loans and convert its convertible debentures to common shares. In order to maintain or adjust capital structure, the Company may issue new shares, sell portions of its strategic investment and periodically purchase its own shares on the open market.

23. Segment information

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

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

<table>
<thead>
<tr>
<th></th>
<th>Three months ended March 31</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2021</td>
</tr>
<tr>
<td>Revenue from external customers</td>
<td></td>
</tr>
<tr>
<td>Canada</td>
<td>799,433</td>
</tr>
<tr>
<td>United States</td>
<td>2,593,965</td>
</tr>
<tr>
<td>Europe</td>
<td>20,042</td>
</tr>
<tr>
<td>Asia</td>
<td>-</td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>2,733,107</td>
</tr>
<tr>
<td>China</td>
<td>7,618</td>
</tr>
<tr>
<td>South America</td>
<td>110,338</td>
</tr>
<tr>
<td></td>
<td><strong>6,264,503</strong></td>
</tr>
</tbody>
</table>
23. Segment information (continued)

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

<table>
<thead>
<tr>
<th></th>
<th>Three months ended March 31,</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2021</td>
</tr>
<tr>
<td>Sales of goods under long-term contracts</td>
<td>6,049,885</td>
</tr>
<tr>
<td>Sales of goods in point of time</td>
<td>214,618</td>
</tr>
<tr>
<td>Other revenues</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>6,264,503</td>
</tr>
</tbody>
</table>

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:

24. Subsequent events

On April 19, 2021, the Company announce that its cutting edge Additive Manufacturing (“AM”) NexGen™ Powder production line, incorporating all the improvements previously announced (increased production rate, lower CAPEX, lower OPEX, narrower particle size distribution) is now in place and producing powders. PyroGenesis’ game-changing NexGen™ Plasma Atomization System, with its production rate exceeding 25kg/h, has shattered all published plasma-atomized production rates for titanium known to management. As previously disclosed, there are several major top-tier aerospace companies, and OEMs, awaiting powders from PyroGenesis’ new, state of the art, NexGen™ production line. The Company will, over the next several weeks, perform a number of test runs to confirm batch to batch consistency. The Company now expects to start delivering powders before the end of Q2 2021.

On April 20, 2021, the Company announced the signing of a qualification agreement (the “Agreement”) with a premier global aerospace company (the “Client”) for the production of metal powders. Under this Agreement, the Client will perform a standard qualification process typically required before a company can become an approved supplier. The process will, amongst other things, evaluate the Company’s manufacturing methods, test samples of powder for batch-to-batch consistency and determine mechanical and chemical properties. Subsequently, larger volumes of powder will be used to print test coupons to further evaluate mechanical and chemical properties. It is expected that testing with real parts under real time conditions would be in order before final acceptance. Upon passing all acceptance tests, the process will be locked down specifically for the Client, with no additional modifications permitted. Upon successful completion of the testing, PyroGenesis would expect to receive formal acceptance as an approved supplier. The qualification process has now formally commenced, and the first powder samples are expected to be delivered within the next several weeks.

On April 27, 2021, the Company announced that it had signed a binding Letter of Intent (“LOI”), which outlines the terms and conditions pursuant to which PyroGenesis would acquire AirScience Technologies Inc (“AST”) for $4.8MM (the “Purchase Price”). The LOI is binding on AST, but it is only binding on PyroGenesis if in its sole opinion, it is satisfied with the final due diligence currently in progress. The option to satisfy the Purchase Price in shares or cash is at the sole discretion of the buyer, and will only be made on, or about, final closing. AST is a Montreal-based company that designs and builds (i) gas upgrading systems (specifically from biogas to renewable natural gas, or “RNG”), (ii) Pyrolysis-Gas Purification, (iii)
24. Subsequent events (continued)

Coke-Oven Gas (“COG”) Purification as well as providing (iv) Biogas & Landfill-Gas Flares and Thermal Oxidizers.

Between April 30, 2021 and May 4, 2021, the Company redeemed 196,684 of its common shares for an amount of $1,383,240.

Between April 1, 2021 and May 14, 2021, the Company issued 1,743,348 common shares upon the exercise of 1,743,348 warrants for total proceeds of $3,965,116. The Company also issued 375,250 common shares upon exercise of 375,250 stock options for total proceeds of $257,883.

The global pandemic due to the novel coronavirus (COVID-19) is a situation that is constantly evolving, and the measures put in place are having multiple impacts on provincial, national and global economies. The overall effect of these events on the Company and its operations is too uncertain to be estimated at this time. The impacts will be accounted for when they are known and may be assessed.