

**PyroGenesis Canada Inc.**

**Condensed  
Interim Financial Statements**

Three and nine months ended September 30, 2018 and 2017

(Unaudited)

### **CONDENSED INTERIM FINANCIAL STATEMENTS**

The accompanying unaudited financial statements of Pyrogenesis Canada Inc. have been prepared by and are the responsibility of the Company's management. The Company's independent auditor has not performed a review of these unaudited condensed interim financial statements for the period ended September 30, 2018.

**PyroGenesis Canada Inc.**  
**Condensed Interim Statements of Financial Position**  
(unaudited)

	September 30, 2018	December 31, 2017
	\$	\$
<b>Assets</b>		
<i>Current assets</i>		
Cash	1,833,036	622,846
Accounts receivable [note 4]	419,495	437,869
Costs and profits in excess of billings on uncompleted contracts [note 5]	61,776	115,226
Investment tax credits receivable	597,639	797,832
Prepaid expenses	635,451	401,405
Inventories	614,247	123,735
<b>Total current assets</b>	<b>4,161,644</b>	<b>2,498,913</b>
<i>Non-current assets</i>		
Deposits	55,091	57,530
Property plant and equipment	3,191,025	2,247,494
Intangible assets	558,636	404,013
Investments	1,601,250	561,000
<b>Total assets</b>	<b>9,567,646</b>	<b>5,768,950</b>
<b>Liabilities</b>		
<i>Current</i>		
Accounts payable and accrued liabilities [note 6]	4,050,967	5,481,245
Billings in excess of costs and profits on uncompleted contracts [note 7]	2,807,240	1,846,715
Current portion of long-term debt [note 8]	659,573	657,774
Convertible debentures [note 9]	-	3,916,549
<b>Total current liabilities</b>	<b>7,517,780</b>	<b>11,902,283</b>
<i>Non-current</i>		
Long-term debt [note 8]	317,377	10,290
Convertible debentures [note 9]	2,595,661	-
<b>Total liabilities</b>	<b>10,430,818</b>	<b>11,912,573</b>
<b>Shareholders' deficiency [note 10]</b>		
Common shares	38,833,323	30,240,844
Warrants reserve	1,907,168	96,021
Contributed surplus	6,681,192	6,122,794
Equity portion of convertible debentures [note 9]	213,529	572,582
Other equity	24,844	24,844
Deficit	(48,523,228)	(43,200,708)
<b>Total shareholders' deficiency</b>	<b>(863,172)</b>	<b>(6,143,623)</b>
<b>Total liabilities and shareholders' deficiency</b>	<b>9,567,646</b>	<b>5,768,950</b>

Going concern disclosure, related party transactions and subsequent events [notes 1, 13, and 16]

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 Financial Position**  
(unaudited)

	<u>Three months ended</u> <u>September 30,</u>		<u>Nine months ended</u> <u>September 30,</u>	
	2018	2017	2018	2017
	\$	\$	\$	\$
<b>Revenue [note 15]</b>	<b>1,097,726</b>	2,026,557	<b>4,579,680</b>	5,896,092
Cost of sales and services [note 12]	<b>845,575</b>	870,352	<b>3,125,225</b>	2,820,911
Gross margin	<b>252,151</b>	1,156,205	<b>1,454,455</b>	3,075,181
<b>Expenses (income)</b>				
Selling, general and administrative [note 12]	<b>1,899,542</b>	1,160,752	<b>4,731,004</b>	3,443,123
Research and development	<b>177,405</b>	82,951	<b>633,920</b>	213,158
Net finance costs (income) [note 12]	<b>934,039</b>	272,585	<b>1,412,051</b>	686,176
<b>Net loss and comprehensive loss</b>	<b>(2,758,835)</b>	(360,083)	<b>(5,322,520)</b>	(1,267,276)
<b>Basic and diluted loss per share</b>	<b>(0.02)</b>	(0.003)	<b>(0.04)</b>	(0.012)
Weighted average number of common shares outstanding - basic and diluted	<b>126,452,281</b>	105,452,357	<b>122,388,687</b>	104,568,134

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

# PyroGenesis Canada Inc.

## Condensed Interim Statements of Changes in Shareholders' Deficiency

(unaudited)

	Number of Class A common shares	Class A common share capital	Warrants reserve	Contributed surplus	Equity portion of convertible debentures	Other Equity	Deficit	Total
		\$	\$	\$	\$	\$	\$	\$
<b>Balance - December 31, 2017</b>	112,698,081	30,240,844	96,021	6,122,794	572,582	24,844	(43,200,708)	(6,143,623)
Private placement [note 10]	8,269,706	4,095,059	1,094,942	-	-	-	-	5,190,001
Share issue expenses	-	(246,143)	-	-	-	-	-	(246,143)
Issuance of broker warrants	-	(24,929)	24,929	-	-	-	-	-
Shares issued in settlement of long-term debt [note 6, 8 and 10]	5,285,714	2,716,870	610,701	-	-	-	-	3,327,571
Share issued in settlement of convertible debenture [note 9 and 10]	1,258,333	578,404	176,596	-	-	-	-	755,000
Shares issued upon exercise of warrants [note 10]	1,797,500	725,146	(96,021)	-	-	-	-	629,125
Shares issued upon exercise of stock options [note 10]	420,000	175,490	-	(70,490)	-	-	-	105,000
Share-based payments	-	-	-	628,888	-	-	-	628,888
Issuance of convertible debenture [note 9]	-	-	-	-	213,529	-	-	213,529
Reimbursement of convertible debenture [note 9]	-	572,582	-	-	(572,582)	-	-	-
Comprehensive loss during the period	-	-	-	-	-	-	(5,322,520)	(5,322,520)
<b>Balance – September 30, 2018</b>	<b>129,729,333</b>	<b>38,833,323</b>	<b>1,907,168</b>	<b>6,681,192</b>	<b>213,529</b>	<b>24,844</b>	<b>(48,523,228)</b>	<b>(863,172)</b>
Balance - December 31, 2016	101,858,434	25,442,906	901,211	5,679,580	572,582	24,844	(37,026,405)	(4,405,282)
Shares issued upon exercise of warrants	5,582,357	2,455,251	(492,859)	-	-	-	-	1,962,392
Shares issued upon exercise of stock options	933,000	303,398	-	(131,958)	-	-	-	171,440
Share purchase warrant expired	-	-	(108,192)	108,192	-	-	-	-
Share-based payments	-	-	-	425,303	-	-	-	425,303
Comprehensive loss during the period	-	-	-	-	-	-	(1,267,276)	(1,267,276)
<b>Balance – September 30, 2017</b>	<b>108,373,791</b>	<b>28,201,555</b>	<b>300,160</b>	<b>6,081,117</b>	<b>572,582</b>	<b>24,844</b>	<b>(38,293,681)</b>	<b>(3,113,423)</b>

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

# PyroGenesis Canada Inc.

## Condensed Interim Statements of Cash Flows

(unaudited)

	<u>Three months ended</u> <u>September 30,</u>		<u>Nine months ended</u> <u>September 30,</u>	
	2018	2017	2018	2017
	\$	\$	\$	\$
Cash flows provided by (used in)				
<b>Operating activities</b>				
Net loss	(2,758,835)	(360,083)	(5,322,520)	(1,267,276)
Adjustments for:				
Share-based payments	203,384	151,708	628,888	425,303
Depreciation on property plant and equipment	43,331	27,503	113,577	81,951
Finance costs [note 12]	177,289	171,160	502,301	489,342
Change in fair value of investments	756,750	101,099	909,750	196,834
	(1,578,081)	91,387	(3,168,004)	(73,846)
Net change in non-cash operating working capital items [note 11]	4,700,630	(713,671)	2,301,175	(208,944)
Interest paid	(82,249)	(92,195)	(233,295)	(259,199)
	3,040,300	(714,479)	(1,100,124)	(541,989)
<b>Investing activities</b>				
Purchase of property and equipment	(159,628)	(244,308)	(998,041)	(1,000,683)
Additions to deferred development costs	(142,953)	(99,707)	(254,781)	(291,724)
Purchase of investments	(1,950,000)	-	(1,950,000)	-
	(2,252,581)	(344,015)	(3,202,822)	(1,292,407)
<b>Financing activities</b>				
Repayment of term loans	(2,450,000)	(201,488)	(2,740,200)	(361,488)
Proceeds from loans	2,745,000	-	3,145,000	-
Repayment of capital lease obligations	(3,808)	(2,260)	(8,945)	(5,274)
Proceeds from issuance of shares – Private placement [note 10]	670,001	-	5,190,001	-
Share issue costs [note 10]	-	-	(246,143)	-
Proceeds from issuance of shares upon exercise of warrants [note 10]	-	1,225,785	629,125	1,962,392
Proceeds from issuance of shares upon exercise of stock options [note 10]	-	96,250	105,000	171,440
Net proceeds from the issuance of convertible debentures [note 9]	-	-	2,684,298	-
Reimbursement of convertible debentures [note 9]	-	-	(3,245,000)	-
	961,193	1,118,287	5,513,136	1,767,070
<b>Net increase (decrease) in cash</b>	<b>1,748,912</b>	<b>59,793</b>	<b>1,210,190</b>	<b>(67,326)</b>
Cash - beginning of period	84,124	258,138	622,846	385,257
<b>Cash - end of period</b>	<b>1,833,036</b>	<b>317,931</b>	<b>1,833,036</b>	<b>317,931</b>
Supplemental disclosure of cash flows information (note 11)				

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

# PyroGenesis Canada Inc.

## Notes to Condensed Interim Financial Statements

September 30, 2018 *(unaudited)*

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### 1. Nature of operations and going concern disclosure

#### (a) Nature of operations

PyroGenesis Canada Inc. (the "Company"), incorporated under the laws of the Canada Business Corporations Act, was formed on July 11, 2011. The Company owns patents of advanced waste treatment systems technology and designs, develops, manufactures and commercialises advanced plasma processes and systems. The Company is domiciled at 1744 William Street, Suite 200, Montreal, Quebec. The Company is publicly traded on the TSX Venture Exchange under the Symbol "PYR". During the Company received approval to trade on the OTCQB in the USA under the symbol "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 \$48,523,228 as at September 30, 2018. Furthermore, as at September 30, 2018, the Company's current liabilities and expected level of expenses for the next twelve months exceed cash on hand of \$1,833,036. The Company currently has no committed sources of financing available. The Company has relied upon external financings to fund its operations in the past, primarily through the issuance of equity, debt, and convertible debentures, as well as from investment tax credits.

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

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

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

# PyroGenesis Canada Inc.

## Notes to Condensed Interim Financial Statements

September 30, 2018 (unaudited)

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### 2. Basis of preparation

(a) Statement of compliance:

These condensed interim financial statements of the Company have been prepared in accordance with International Accounting Standard (“IAS”) 34 – *Interim Financial Reporting*. These condensed interim financial statements do not include all of the necessary information required for full annual financial statements in accordance with International Financial Reporting Standards (“IFRS”) and should be read in conjunction with the Company’s audited annual financial statements for the year ended December 31, 2017.

These condensed interim financial statements were approved and authorized for issuance by the Board of Directors on November 28, 2018.

(b) Functional and Presentation Currency

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

(c) Basis of measurement

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

### 3. Significant accounting judgments, estimates and assumptions

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

### 4. Accounts receivable

Details of accounts receivable were as follows:

	September 30, 2018	December 31, 2017
	\$	\$
1 – 30 days	123,820	263,005
30 – 60 days	52,303	127,086
61 – 90 days	-	-
Greater than 90 days	31,285	4,101
Total	207,408	394,192
Other receivable	212,087	43,677
	419,495	437,869

There is no allowance for doubtful accounts recorded as at September 30, 2018 and December 31, 2017.

# PyroGenesis Canada Inc.

## Notes to Condensed Interim Financial Statements

September 30, 2018 (unaudited)

### 5. Costs and profits in excess of billings on uncompleted contracts

As at September 30, 2018, the Company had six contracts with total billings of \$1,004,613 which were less than total costs incurred and had recognized cumulative revenue of \$1,066,389 since those projects began. This compares with seven contracts with total billings of \$106,097 which were less than total costs incurred and had recognized cumulative revenue of \$221,323 from three contracts as at December 31, 2017.

### 6. Accounts payable and accrued liabilities

	September 30, 2018	December 31, 2017
	\$	\$
Accounts payable trade	1,948,352	747,325
Accrued liabilities	1,957,442	1,295,628
Settlement agreement payable to a company controlled by the father of the controlling shareholder and CEO of the Company	-	3,215,643
Accounts payable to the controlling shareholder	145,173	205,641
Accounts payable to a trust beneficially owned by the controlling shareholder	-	17,008
	<b>4,050,967</b>	<b>5,481,245</b>

Subsequent to year end, the Company and Mr. Peter Photis Pascali, the father of the CEO Photis Peter Pascal controlling shareholder of the Company, entered into a settlement agreement to resolve a claim in the amount of \$5,531,928 filed on or about April, 5, 2018, made by Mr. Peter Photis Pascali, in connection with the share for debt conversion transaction between the parties that took place in 2014. Under the share for debt conversion, the Company issued 7,500,000 common shares in 2014 to settle \$6,000,000 of the carrying value of the Balance of sale payable. The current claim was settled for an amount of \$3,699,999.80. The settlement agreement also constitutes the final payment of the Balance of sale, and provides for the issuance of units by the Company having a fair value of \$3,327,571 to Mr. Peter Photis Pascali as follows: (i) on February 9 and March 7, 2018, issuance of 1,899,999 units at a value of \$0.70 per unit with each unit consisting of 1 common share of the Company and 1 common share purchase warrant which entitles the holder to purchase 1 common share at a price of \$1.25 until August 9th, 2019, and (ii) on April 30, 2018, issuance of 3,385,715 units at a value of \$0.59 per unit with each unit consisting of 1 common share of the Company and 1 common share purchase warrant which entitles the holder to purchase 1 common share at a price of \$0.85 until April 19, 2020. As the claim related to a dispute that existed at year-end, a liability and related expense of \$3,215,643 was recorded as at December 31, 2017. The liability was measured based on the fair value of the units as at their issuance date, which is \$0.70 on February 9 and March 7, 2018 and \$0.59 on April 30, 2018 (note 10).

### 7. 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 \$7,093,249 (Dec 31, 2017 - \$3,657,621).

Payments received on contracts in progress were \$4,286,009 (Dec 31, 2017 - \$5,184,336 in cash and \$320,000 of other assets).

# PyroGenesis Canada Inc.

## Notes to Condensed Interim Financial Statements

September 30, 2018 (unaudited)

### 8. Long-term debt

	September 30, 2018	December 31, 2017
	\$	\$
Balance of sale payable to a company controlled by the father of the controlling shareholder and CEO of the Company	-	111,928
Term loans	647,200	-
Term loans payable to the controlling shareholder and CEO of the Company	295,000	
Obligations under finance lease	34,750	18,736
	976,950	130,664
Instalments due within one year	659,373	120,374
Long-term debt	317,377	10,290

The balance of sale payable to a company controlled by the father of the controlling shareholder and CEO of the Company was reimbursed by the issuance of units on April 30, 2018 (note 6 and 10).

The term loans include a \$247,200 loan with respect to the Company's scientific research and experimental development tax credit, it matures December 7, 2018 bearing an interest rate of 16.8% (effective interest rate of 21%) and two short-term loans totalling \$400,000 maturing July 31, 2019.

The term loans payable to the controlling shareholder and CEO of the Company have a maturity date of March 31, 2020, and bear an interest rate of 6%, payable at maturity.

During the nine-month period ended September 30, 2018, the Company received term loans of \$2,300,000 from a trust controlled by the controlling shareholder and CEO and \$550,000 from unrelated parties. During the same period, the Company repaid \$2,450,000 of these loans.

# PyroGenesis Canada Inc.

## Notes to Condensed Interim Financial Statements

September 30, 2018 (unaudited)

### 9. Convertible debentures

On April 2, 2018, the Company redeemed \$3,245,000 of the \$4,000,000 unsecured convertible debenture issued on March 30, 2015 maturing on March 30, 2018. The remaining balance of \$755,000 was redeemed on April 19, 2018, by the issuance of 1,258,333 units to an unrelated party (note 10).

On April 2, 2018, the Company completed a \$3,000,000 non-brokered private placement of 9.5% secured convertible debenture. The convertible debenture bears interest at the rate of 9.5% per annum, with interest payable in cash on a quarterly basis, and mature on March 29, 2020. Each debenture is convertible into common shares of the Company at a conversion price of \$0.80 per common share. The convertible debenture and the common shares issuable on conversion of the debenture will be subject to a statutory hold period of four months and one day from the closing date of the Offering. In connection with the convertible debenture, the Company paid finder fees in the amount of \$180,000 to the agent. Total transaction costs amount to \$315,702 are allocated between liability and equity component. On March 19, 2018, the Company received an amount of \$1,510,000 as partial proceeds and \$1,490,000 on April 2, 2018 for net total proceeds of \$2,684,298.

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

	\$
Debt component, net of transactions cost of \$290,589	2,470,769
Conversion option recognized in equity, net of transaction cost of \$25,113	213,529
Net proceeds	2,684,298

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

	September 30, 2018	December 31, 2017
	\$	\$
Balance, beginning of period	3,916,549	3,605,897
Repayment of convertible debentures issued on March 30, 2015	(3,916,549)	-
	-	3,605,897
Issuance of convertible debentures on April 2, 2018		
Debt component	2,470,769	-
Effective interest accretion	124,892	310,652
<b>Balance, end of period</b>	<b>2,595,661</b>	<b>3,916,549</b>

# PyroGenesis Canada Inc.

## Notes to Condensed Interim Financial Statements

September 30, 2018 (unaudited)

### 10. Shareholders' equity

#### *Issuance of shares*

On September 28, 2018, the Company issued an amount of 3,448,276 units to a trust under common control of the controlling shareholder and CEO at a price of \$0.58 per Unit, for gross proceeds of \$2,000,000. Each unit consists of one common share of the Company and one Common Share purchase warrant. Each warrant entitles the holder thereof to purchase one common share at a price of \$0.58 until February 13, 2021. Each unit will be subject to a statutory hold period of four months and one day from the date of closing. The fair value of the share purchase warrants was estimated at \$529,199 by applying the Black-Scholes option pricing model.

On April 30, 2018, the Company issued an amount of 3,385,715 units to a company controlled by the father of the controlling shareholder and CEO (an unrelated party per TSX policy) under a settlement agreement (see note 6 and 8). Each unit consists of one common share of the Company and one common share purchase warrant. Each warrant entitles the holder thereof to purchase one common share at a price of \$0.85 until April 20, 2020. Each unit will be subject to a statutory hold period of four months and one day from the date of closing. The fair value of the share purchase warrants was estimated at \$414,966 by applying the Black-Scholes option pricing model.

On April 19, 2018, the Company issued an amount of 1,258,333 units to the father of the controlling shareholder and CEO (an unrelated party as per TSX policy) to redeem the remaining balance of \$755,000 of the \$4,000,000 unsecured convertible debenture. The Company also issued 1,850,000 units to an unrelated party for an aggregate amount of 3,108,333 at a price of \$0.60 per unit, for gross proceeds of \$1,110,000. Each unit consists of one common share of the Company and one common share purchase warrant. Each warrant entitles the holder thereof to purchase one common share at a price of \$0.85 until April 19, 2020. Each unit will be subject to a statutory hold period of four months and one day from the date of closing. In connection with the private placement, the Company paid finder fees in the amount of \$89,478 and issued 74,000 finder's compensation warrants to the agents. The fair value of the share purchase warrants and the finder's compensation warrants was estimated at \$259,632 and \$14,008, respectively by applying the Black-Scholes option pricing model.

On February 9, 2018 and March 7, 2018, the Company issued an amount of 1,899,999 units to a company controlled by the father of the controlling shareholder and CEO (an unrelated party as per TSX policy) under a settlement agreement (see note 6 and 8) and 2,971,430 units to an unrelated party for an aggregate amount of 4,871,429 units at a price of \$0.70 per Unit, for gross proceeds of \$3,410,000. Each unit consists of one common share of the Company and one Common Share purchase warrant. Each warrant entitles the holder thereof to purchase one common share at a price of \$1.25 until August 9, 2019. Each unit will be subject to a statutory hold period of four months and one day from the date of closing. In connection with the private placement, the Company paid finder fees in the amount of \$127,750 and issued 88,000 finder's compensation warrants to the agents. The fair value of the share purchase warrants and the finder's compensation warrants was estimated at \$501,845 and \$10,921, respectively by applying the Black-Scholes option pricing model.

The fair value of the share purchase warrants and the finder's compensation warrants issued was measured as follows based on the Black-Scholes option pricing model:

Date of issuance	Sept 28, 2018	April 30, 2018	April 19, 2018	February 9, 2018
Exercise price (\$)	0.58	0.85	0.85	1.25
Weighted-average issuance date market price (\$)	0.44	0.53	0.62	0.70
Expected life (months)	16	24	24	18
Expected volatility (%)	71.90	71.90	71.9	71.9
Semi-annual weighted-average risk-free interest rate (%)	2.19	1.84	1.74	1.74
Dividend yield (%)	0	0	0	0

# PyroGenesis Canada Inc.

## Notes to Condensed Interim Financial Statements

September 30, 2018 (unaudited)

### 10. Shareholders' equity (continued)

On January 25 and 26, 2018, the Company issued 1,797,500 common shares upon the exercise of warrants for net proceeds of \$629,125. The fair value of the warrants of \$96,021 which was accounted for as contributed surplus has been reclassified as capital shares.

During the period January 29 to March 12, 2018, 245,000 stock options were exercised for net proceeds of \$73,500. The amounts credited to share capital from the exercise of stock options include an ascribed value from contributed surplus of \$49,490.

On June 26, 2018, 175,000 stock options were exercised for net proceeds of \$31,500. The amounts credited to share capital from the exercise of stock options include an ascribed value from contributed surplus of \$21,000.

#### *Stock options plan*

As at September 30, 2018, an amount of \$177,160 remains to be amortized in future periods (until July 2023) related to the grant of stock options.

The following table sets out the activity in stock options during the nine months ended September 30, 2018:

	Number of options	Weighted average exercise price
		\$
Options, December 31, 2017	9,376,000	0.32
Granted	1,250,000	0.60
Exercised	(420,000)	(0.25)
Forfeited	(160,000)	(0.30)
Balance, September 30, 2018	10,046,000	0.36

On July 3, 2018 the Company granted 300,000 stock options to Directors. The stock options have an exercise price of \$0.51 per Common Share and are exercisable over a period of 12 months. The options have a five-year term and are exercisable at a price of \$0.51 per share. The fair value of the stock options was estimated at \$0.31 per option by applying the Black-Sholes option pricing model.

On May 10, 2018 the Company granted 250,000 stock options to its newest independent member and Audit Committee Chair. The stock options have an exercise price of \$0.52 per Common Share and are exercisable over a period of 60 months. The options have a five-year term and are exercisable at a price of \$0.52 per share. The fair value of the stock options was estimated at \$0.37 per option by applying the Black-Sholes option pricing model.

On April 3, 2018, the Company granted 500,000 stock options to a consultant, to promote the business interests of the Company worldwide. The stock options have an exercise price of \$0.70 per Common Share and are exercisable over a period of 18 months. The stock options are granted in accordance with the Company's stock option plan. The fair value of the stock options was estimated at \$0.43 per option by applying the Black-Sholes option pricing model.

# PyroGenesis Canada Inc.

## Notes to Condensed Interim Financial Statements

September 30, 2018 *(unaudited)*

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On February 9, 2018, the Company issued 200,000 stock options to an officer with an exercise price of \$0.60 and are exercisable over a period of 60 months. The fair value of the stock options was estimated at \$0.37 per option by applying the Black-Sholes option pricing model.

# PyroGenesis Canada Inc.

## Notes to Condensed Interim Financial Statements

September 30, 2018 (unaudited)

### 10. Shareholders' equity (continued)

The fair value of the stock options was measured based on the Black-Scholes option pricing model using the following assumptions:

	July 3, 2018	May 10, 2018	April 3, 2018	February 9, 2018
Date of issuance	July 3, 2018	May 10, 2018	April 3, 2018	February 9, 2018
Exercise price (\$)	0.51	0.52	0.70	0.60
Weighted-average issuance date market price (\$)	0.51	0.32	0.25	0.37
Expected life (years)	5	5	1.5	5
Expected volatility (%)	74	74	74	74
Risk-free interest rate (%)	2.03	2.21	1.79	2.06
Dividend yield (%)	0	0	0	0

As at September 30, 2018, the outstanding options, as issued under the stock option plan to directors, officers, employees and consultants for the purchases of one common share per option, are as follows:

Issue date	Number of options	Exercise price	Number of exercisable options (1)	Expiry date
		\$		
February 12, 2015	2,065,000	0.30	2,065,000	February 12, 2020
September 25, 2016	3,975,000	0.18	3,975,000	September 25, 2021
October 20, 2016	56,000	0.18	-	October 20, 2021
October 25, 2016	100,000	0.19	30,000	October 25, 2021
November 3, 2017	2,600,000	0.58	1,220,000	November 3, 2022
February 9, 2018	200,000	0.60	20,000	February 9, 2023
April 30, 2018	500,000	0.70	500,000	October 3, 2019
May 10, 2018	250,000	0.52	125,000	May 10, 2023
July 3, 2018	300,000	0.51	150,000	July 3, 2023
	10,046,000	0.36	8,085,000	

(1) At September 30, 2018, the weighted average price of the exercisable options was \$0.32.

# PyroGenesis Canada Inc.

## Notes to Condensed Interim Financial Statements

September 30, 2018 (unaudited)

### 10. Shareholders' equity (continued)

#### Share purchase warrants

The following table reflects the activity in warrants during the nine months ended September 30, 2018 and the number of issued and outstanding share purchase warrants at September 30, 2018:

	Number of warrants December 31, 2017	Issued	Exercised	Number of warrants September 30, 2018	Price per warrant	Expiry date
	\$					
Private placement – July 26, 2016 <sup>1</sup>	1,797,500	-	(1,797,500)	-	-	-
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 30, 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	Feb 13, 2021
	1,797,500	14,975,753	(1,797,500)	14,975,753	0.76	

<sup>1</sup> Upon the exercise of the warrants, an amount of \$96,021 was reclassified from the share purchase warrants reserve to the common shares.

# PyroGenesis Canada Inc.

## Notes to Condensed Interim Financial Statements

September 30, 2018 *(unaudited)*

### 11. Supplemental disclosure of cash flow information

*Net changes in non-cash components of operating working capital*

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
	\$	\$	\$	\$
<b>Decrease (increase) in:</b>				
Accounts receivable	73,645	579,530	18,374	(120,857)
Costs and profits in excess of billings on uncompleted contracts	353,785	108,968	53,450	253,687
Inventory	(2,888)	(114,091)	(490,512)	(114,091)
Investment tax credits receivable	(106,188)	(88,336)	200,193	(357,576)
Prepaid expenses	(75,840)	(108,259)	(290,240)	(37,114)
<b>Increase (decrease) in:</b>				
Accounts payable and accrued liabilities	1,715,794	360,440	1,849,385	479,574
Billings in excess of costs and profits on uncompleted contracts	2,742,322	(1,451,923)	960,525	(312,567)
	<b>4,700,630</b>	<b>(713,671)</b>	<b>2,301,175</b>	<b>(208,944)</b>
<b>Non-cash transactions:</b>				
Fair value of share purchase warrant exercised allocated to common shares	-	-	96,021	-
Fair value of stock option exercised allocated to common shares	-	-	70,490	-
Shares and purchase warrants issued as settlement of a debt and accounts payables [note 6, 8 and 10]	1,997,572	-	3,327,571	-
Issuance of shares in settlement of convertible debentures [note 9]	-	-	755,000	-
Issuance of broker warrants [note 10]	-	-	24,929	-
Purchase of equipment under capital lease obligations	-	-	24,008	25,521
Interest paid in advance, deducted from the proceeds from loan	-	-	58,633	-
Fixed assets included in accounts payables	35,059	-	35,059	-
Investments received in payment of contracts	-	170,000	-	170,000

# PyroGenesis Canada Inc.

## Notes to Condensed Interim Financial Statements

September 30, 2018 (unaudited)

### 12. Other information

For the three and the nine months ended September 30, 2018, depreciation on property and equipment expensed as general and administrative amounted to \$43,331 and \$113,577 (2017 - \$27,503 and \$81,9518), employee benefits totaled \$1,596,189 and \$4,129,969 (2017 - \$1,305,473 and \$3,784,266) and share-based compensation expense was \$203,384 and \$628,888 (2017 - \$151,708 and \$425,303).

Financing income and finance costs include the following items:

	<u>Three months ended September 30,</u>		<u>Nine months ended September 30,</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
	\$	\$	\$	\$
<b>Finance costs</b>				
Interest on convertible debentures	<b>145,809</b>	153,758	<b>432,232</b>	454,640
Interest on long-term debt	<b>18,869</b>	17,728	<b>58,633</b>	34,702
Other interest	<b>12,611</b>	-	<b>15,436</b>	-
Adjustment to the fair value of investments	<b>756,750</b>	101,099	<b>909,750</b>	196,834
Finance expenses	<b>934,039</b>	272,585	<b>1,412,051</b>	686,176

### 13. Related party transactions

During the three and the nine months ended September 30, 2018, the company concluded the following transactions with related parties:

Rent and property taxes were charged by a trust beneficially owned by the controlling shareholder and CEO of the Company in the amount of \$70,352 and \$211,494 respectively, (2017 - \$61,100 and \$174,911). A balance due of \$Nil (2017 - \$119,575) is included in accounts payable and accrued liabilities.

An amount of \$240,159 was paid to a trust beneficially owned by the controlling shareholder and CEO of the Company (December 31, 2017 – Nil). Of this amount \$232,980 is included in prepaids.

Interest of \$Nil and \$14,171, (2017 - \$14,171 and \$42,513) was charged on the \$755,000 convertible debentures held by the father of the controlling shareholder and CEO of the Company. Accreted interest related to the convertible debenture held by the father of the of the controlling shareholder and CEO of the Company amounted to \$Nil and \$11,623(2017 – \$11,234 and \$31,492).

A balance due to the controlling shareholder and CEO of the Company amounted to \$145,173 (December 31, 2017 - \$205,641) and is included in accounts payable and accrued liabilities.

During the three months ended September 30,2018, the Company accrued \$2,965 of interest payable on the loan of \$295,000 from the controlling shareholder and CEO of the Company.

# PyroGenesis Canada Inc.

## Notes to Condensed Interim Financial Statements

September 30, 2018 *(unaudited)*

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### 13. Related party transactions (continued)

The key management personnel of the Company are the members of the Board of Directors and certain executive officers. During the three and nine months ended September 30, 2018, total compensation to key management consisted of the following:

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
	\$	\$	\$	\$
Salaries	<b>126,000</b>	129,569	<b>391,000</b>	389,038
Pension contributions	<b>2,040</b>	2,071	<b>6,120</b>	6,081
Other benefits	<b>3,381</b>	10,407	<b>9,902</b>	30,928
Total compensation	<b>131,421</b>	142,047	<b>407,022</b>	426,047

A balance of \$273,157 of key management compensation is included in accounts payable and accrued liabilities as at June 30, 2018 (December 31, 2017 - \$72,617).

Other related party transactions are described in Note 10.

# PyroGenesis Canada Inc.

## Notes to Condensed Interim Financial Statements

September 30, 2018 (unaudited)

### 14. 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 September 30, 2018, the following items are denominated in foreign currencies:

	US	CDN
	\$	\$
Cash	748,674	969,158
Accounts receivable	153,820	199,120
Accounts payable and accrued liabilities	234,038	302,963
<b>Total</b>	<b>1,136,532</b>	<b>1,471,241</b>

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

	US	CDN
	\$	\$
Cash	287,269	360,379
Accounts receivable	294,347	369,258
Accounts payable and accrued liabilities	(210,230)	(263,733)
<b>Total</b>	<b>371,386</b>	<b>465,904</b>

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

#### Sensitivity analysis

At September 30, 2018, if the US Dollar changes by 10% against the Canadian dollar with all other variables held constant, the impact on before-tax gain or loss for the nine months ended September 30, 2018 would have been \$147,000 (December 31, 2017 – \$46,000).

# PyroGenesis Canada Inc.

## Notes to Condensed Interim Financial Statements

September 30, 2018 (unaudited)

### 14. Financial instruments (continued)

#### *Credit risk*

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The maximum credit risk to which the Company is exposed as at September 30, 2018 represents the carrying amount of cash, account receivable and deposits.

#### *Credit concentration*

During the three and the nine months ended September 30, 2018, three customers accounted for 94% and 88% respectively of revenues from operations.

	Three months ended September 30, 2018		Nine months ended September 30, 2018	
	Revenues	% of total revenues	Revenues	% of total revenues
	\$	%	\$	%
Customer 1	118,556	11	825,151	18
Customer 2	202,653	18	948,467	21
Customer 3	711,309	65	2,249,859	49
Total	1,032,518	94	4,023,477	88

Two customers accounted for 81% (December 31, 2017 – two customers for 89%) of the accounts receivable, representing the Company's major credit risk exposure. Credit concentration is determined based on customers representing 10% or more of total revenues and/or total accounts receivable. The Company believes that there is no unusual exposure associated with the collection of these receivables. The Company manages its credit risk by performing credit assessments of its customers and provides allowances for potentially uncollectible accounts receivable. The Company does not generally require collateral or other security from customers on accounts receivable.

#### *Fair value of financial instruments*

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

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

The fair values of cash, accounts receivable, accounts payable and accrued liabilities, loans, convertible debentures and finance lease approximate their carrying amounts due to their short-term maturities. Investments are valued at fair value are classified as Level 1.

# PyroGenesis Canada Inc.

## Notes to Condensed Interim Financial Statements

September 30, 2018 (unaudited)

### 14. Financial instruments (continued)

#### *Interest rate risk*

Interest rate risk is the risk that the value of a financial instrument might be adversely affected by a change in interest rates. Changes in market interest rates may have an effect on the cash flows associated with some financial assets and liabilities, known as cash flow risk, and on the fair value of other financial assets or liabilities, known as price risk, and on the fair value of investments or liabilities, known as price risks. The Company is exposed to a risk of fair value on the convertible debentures as those financial instruments bear interest at fixed rates.

#### *Price risk*

Other price risk is the risk that the fair value or future cash flows of a financial instruments will fluctuate because of changes in market price (other than those arising from foreign currency risk and interest risk), whether those changes are caused by factors specific to the individual financial instrument or its issuers or factors affecting all similar financial instruments traded in the market. The most significant exposure to other price risk for the Company arises from the investments. If equity prices had increased or decreased by 5% as at September 30, 2018, with all other variables held constant, the Company's investments would have increased or decreased respectively, by approximately \$80,000 (December 31, 2017 - \$28,000).

#### *Liquidity risk*

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

The following table summarizes the contractual maturities of financial liabilities as at September 30, 2018:

	Total	6 months or less	6 to 12 months	1-3 year
	\$	\$	\$	\$
Accounts payable and accrued liabilities	4,050,967	4,050,967	-	-
Capital lease obligations	32,208	4,521	16,947	10,740
Term loans	670,533	261,200	409,333	-
Term loan to the controlling shareholder and CEO	321,550	8,850	8,850	303,850
Convertible debentures	3,427,500	142,500	142,500	3,142,500
	<b>8,502,758</b>	<b>4,468,038</b>	<b>577,630</b>	<b>3,457,090</b>

# PyroGenesis Canada Inc.

## Notes to Condensed Interim Financial Statements

September 30, 2018 *(unaudited)*

### 15. Segment information

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

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

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
	\$	\$	\$	\$
Revenue from external customers				
Canada	755,264	1,529,380	2,418,577	2,238,725
United States	138,800	496,284	1,177,306	3,576,360
Europe	-	-	-	-
Asia	1,009	893	35,330	29,148
Mexico	202,653	-	948,467	51,859
	<b>1,097,726</b>	<b>2,026,557</b>	<b>4,579,680</b>	<b>5,896,092</b>

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

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
	\$	\$	\$	\$
Sales of goods under long-term contracts	183,819	181,969	926,370	1,895,384
Services	913,907	1,844,588	3,653,310	4,000,708
	<b>1,097,726</b>	<b>2,026,557</b>	<b>4,579,680</b>	<b>5,896,092</b>

# PyroGenesis Canada Inc.

## Notes to Condensed Interim Financial Statements

September 30, 2018 *(unaudited)*

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### 16. Subsequent events

On October 19, 2018, the Company issued 388,750 Units to unrelated parties at a price of \$0.58 per Unit, for gross proceeds of \$225,475. 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 \$0.58 until February 19th, 2021. Each Unit will be subject to a statutory hold period of four months and one day from the date of closing.

On October 29, 2018, the Company granted to Mr. Pierre Carabin, Chief Technology Officer and Chief Strategist of the Company, stock options to acquire up to 100,000 common shares of the Company. The stock options have an exercise price of \$0.52 per common share and are exercisable over a period of five (5) years. The options are granted in accordance with the Company's stock option plan.

In October 2018, the Company entered into four agreements ("Shares for Debt Transactions") with four creditors whereby the creditors agreed to receive 1,168,000 Units of the Company, at \$0.58 per Unit in payment of an aggregate amount of \$677,440 owed to them by the Company, the whole subject to the approval of the TSX Venture Exchange. Each Unit consisted of one Common Share and one Common share purchase warrant at an exercise price of \$0.58 per common share until February 13, 2021. On November 8, 2018, the TSX Venture Exchange conditionally approved three of the aforementioned Shares for Debt Transactions whereby the Company issued 1,112,000 Units to pay three of the four creditors an aggregate amount of \$644,960. 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 \$0.58 until February 13, 2021. Each Unit will be subject to a statutory hold period of four months and one day from the date of closing.